

Challenge

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TIME FOR DECISION COMES AFTER ELECTION

THE SUBTLETIES of the Electoral College system notwithstanding, the American people could hardly have divided their votes more evenly between the Presidential candidates. A more detailed analysis of the reasons for the closeness of the race must wait until data on who voted how and where are available. One sure conclusion that can be drawn now is that the American people are prepared to accept the view that we have a job to do in the Sixties; but no one seems quite sure exactly where to begin.

The election results would have been far more clear cut if the programs of the candidates stood in black and white contrast—if Mr. Kennedy were a socialist and Mr. Nixon an 18th-century libertarian; or if Mr. Kennedy wanted to depart completely from our present habits and institutions and Mr. Nixon wanted to stand pat, to freeze the status quo.

But this was not the case. Both candidates stood for change and progress within the framework of a society clearly recognizable as American. The differences between them were in emphasis, timing and technique. They both called into motion a great many forces intended to achieve results that most people agree are desirable. But when it came to how these results were to be achieved, the proposals were as cacophonous as election-year promises could make them. Given this choice between methods rather than goals, the electorate chose in uncertain fashion, hardly making a choice at all.

It would be difficult to criticize the campaigns waged by victor and loser. Rather, if there is anything indecisive about the manner in which the new President was elected, the fault is with the American people, not the candidates. When one carefully examines the most important issues on which the two men campaigned, one finds that the people of the nation have established a consensus on what is desirable, but no consensus on how to attain the desirable. Little wonder that this dichotomy was reflected in the campaign and in the almost perfect balance in votes cast for each side.

On the issue of economic growth: everyone wants it, and there is general agreement that we should have more. On the issue of inflation: no one wants it. But no one has developed a policy which convinces the majority of us that we can have growth without inflation.

On full employment: we all want it; in fact, we have insisted on it to the extent of writing this goal into law. But the thorny problems stemming from persistent unemployment in depressed areas and the attrition of job opportunities in manufacturing because of auto-

mation result in dilemmas—dilemmas that at first glance appear to make the lack of action the price of freedom. A second look could suggest something far more accommodating, but apparently we have not looked hard enough.

On social security: we all want it. The day when one could argue that the search for security is somehow bad for the soul is no longer with us. But the economic issues of how we are to achieve this longed-for security require a little more effort than it takes to watch a TV Western. So once again more attention has been focused on what we want rather than how we are going to get it. The fine points of understanding that all of economics presents us with a subtle array of choices between unlimited wants and relatively scarce resources have still not made much of an impression on the American public.

One could go on with a long list of domestic issues on which the American public has a split personality and therefore cannot take a definite position. The extent and nature of the role of government in the economy; aid to education; the division of resources between public and private sectors; the accommodation of our federal structure with our recently acquired need for a national posture—all these and many other basic issues have been put off for further examination. The public is fairly evenly divided on all these, and no two candidates running for the Presidency could take a position definitely for or against any of them. Each candidate's position was bound to reflect a strong measure of compromise and garner an equal measure of support.

there was a choice but . . .

I am not saying that there was little to choose between Mr. Kennedy and Mr. Nixon. Certainly, the extent to which their programs differed in technique left an area large enough to exercise choice. What I am saying is that the American public has not made up its mind on all of the important domestic issues to an extent that would constitute a consensus on these issues. An almost 50-50 vote does not give the Kennedy Administration a mandate to go to work with its sleeves rolled up. Rather, Mr. Kennedy must continue to "talk out" the issues with the American people until he can convince the majority of us to go with him or against him. It looks like our dead center position will be good for some time to come.

An interesting sidelight to the election emphasizes how perfectly balanced (or indecisive) our society is, or would have been, if Mr. Nixon were elected. If that happened, we would have had a Republican in the White House and a Democratic Congress. It is doubtful that Mr. Nixon could have gotten cooperation from many of the conservative Democrats. Thus, we would have had a period of talk-out in any case. One way or the other, this is apparently the time to take a second look and make up our minds.—H. B.

LETTERS TO THE EDITOR

Challenge invites your comments. Address letters to CHALLENGE, 475 Fifth Avenue, New York 17, N. Y.

SOUTH TAKEN TO TASK

• In his story on the economic situation south of the Mason-Dixon [November, 1960], Lorin Thompson talks of a Southern "renaissance." I wonder, however, if the picture is really as bright as your attractive cover design and Mr. Thompson's analysis seem to indicate.

Can the industrial production index be considered a true measure of a "renaissance"? Can we really speak of a renaissance without speaking of a new freedom of the spirit from old chains of prejudice and superstition? By and large, Southerners persist in a blind adherence to a prejudice which counters the ideals of Christian brotherhood by which they supposedly live. Popular leaders advocate closing public schools rather than sharing them with members of another race. Tradition, apparently, is still more important than knowledge and the search for truth.

No doubt, as Mr. Thompson indicates, industrial growth in the South has brought about certain changes in old attitudes. But until those changes go much deeper than they have up to now, it is only wishful thinking to say the South is undergoing a renaissance.

MARY WALLACE

Oak Park, Ill.

CHALLENGE APPROVED

• May I congratulate you on the excellence of your October issue. In essence, this issue appears to me to be a handbook and at the same time a measure of what must be our minimum ultimate goal in economic education—effective economic citizenship. Unless we can assure that high school graduates, in the reasonably near future, can cope with this level and range of politico-economic problems, I believe the whole concept of the value of economic education in a democracy is largely illusory.

JOHN C. SCHRAMM, Managing Director
The Calvin K. Kazanjian Economics Foundation, Inc.
Westport, Conn.

LIKES NEW LOOK

• Just a note to congratulate you on the new format of the magazine. I think you have done an excellent job.

R. L. WEISSMAN
Economist

W. E. Hutton & Co.
New York, N.Y.

SUBVERSIVE NUMBERING

• I object strenuously to the implication behind the title "Which Party Can Make the U.S. No. 1?" of T. C. Schelling's article in your October issue.

It's a question of the "Have you stopped beating your wife?" variety and has no place in your very fine magazine. Unless, of course, you've swallowed the line about our not being No. 1.

M. H. BANNER

Normal, Ill.

AGAINST FEDERAL SPENDING

• Your October, 1960, issue contained an article by Prof. Schelling in which he kept on talking about Kennedy or Nixon wanting to spend more money. The winning party in the election would not need to spend more money if it would be sensible and cut out unnecessary welfare, such as aid to education—now adequately covered by bond issues at the county and state level, housing and medical aid for the aged, 90 per cent of whom have Blue Cross, Blue Shield or insurance policies.

FRANK P. STELLING

Oakland, Calif.

OUR TRIBAL PAST

• The article "Nigeria Prepares for Independence" [April, 1960] starts with the following phrase: "Next October the world will witness the birth of the largest nation ever sired by colonialism out of tribalism."

Yes, indeed, if you except the U.S.A.

J. L. C. de SALDANHA

Lisbon, Portugal

EDUCATIONAL NEEDS

• Mr. Hechinger's article on educational needs [October, 1960] briefly touched the main issue when it said "more money" would not be the sole answer. The main criticism of the schools in the past few years has not been based on crowded classrooms or lack of new plant, but on poor teaching and poorer curriculums. The critics have been the parents of the pupils and employers who must use the products of modern education.

The NEA and those others most avid for federal aid to education are the same ones who have most vigorously defended current teaching methods and courses. It is questionable whether

multimillion-dollar schools and higher teacher salaries, regardless of merit, will improve the student's education — if "teaching methods" are still stressed over subject matter in our teachers colleges, and if "snap" courses are given priority over "hard" ones.

Local control of the school has been the biggest obstacle to the NEA and others favoring "progressive education" in fighting off change. With control centered in Washington it would be easier to ignore parental criticism and impose their policies on all public schools. The big question here is what would such federally imposed policies do to education. This is not a matter of money, but of educational reform.

THOMAS J. MULLEN, JR.

Short Hills, N.J.

DEBATE APPROVED

• The debate between Dr. Wallich and Prof. Harris ["What Is the Right Economic Policy?", October, 1960] is the best presentation of the Republican and Democratic positions that I have seen. It brought out the areas of agreement and disagreement with the greatest clarity.

P. F. SILVER

Pittsburgh, Pa.

WORK FOR ECONOMISTS

• A very important lag in our thinking is pointed out by Mr. Livermore in "When Is a Market a Market?" [November, 1960]. He advocates that economists should investigate the methods by which we come to our decisions on how much the government shall spend on defense, housing, education and other programs. A better understanding of these processes is long overdue.

ANDREW MULLIGAN

Boston, Mass.

CORRECTION

• Stephen W. Rousseas' article, "What Politicians Want—and Cannot Do," in the October issue contained an error in proofreading that seriously distorted the meaning of one passage.

On page 7, at the top of column 1, it was stated that under present market conditions the rise in the general price level can *only* be curbed by monetary policy. Mr. Rousseas' point was that such a rise can be curbed by such means, but only when applied to such an extent as to provoke a depression. This clearly implied that other means could be used to prevent the rise—whereas the passage, as printed, excluded such a possibility.

We apologize to Mr. Rousseas and our readers for this mistake.—Ed.

Khrushchev Calls a Turn

by HAIG BABIAN



■ PEACEFUL COEXISTENCE has been a recurrent theme in Soviet tactics with the non-Communist world since the earliest days of the Russian Revolution. Lenin used it to win time while the Revolution was fighting for its life at home. Stalin used it to win elbow room for the expected final drive toward victory against the capitalists. But both Lenin and Stalin remained intellectually committed to Marx's theory that war is inevitable so long as capitalism persists anywhere in the world. Peaceful coexistence, then, has been an on-again, off-again thing, apparently a temporary phase of Soviet long-range policy.

All this, however, was before Khrushchev. The current leader of the Communist world has sustained an almost six-year drive to alter the position of peaceful coexistence within the structure of Communist theory. In this he has met with considerable success. The West must now seriously consider the possibility that Khrushchev's brand of peaceful coexistence is exactly as labeled—not an expedient, not a trick, but a complete departure from the tactics of his predecessors. And if this is true, the West is automatically presented with a whole new set of dilemmas.

When I arrived in the Soviet Union late last spring, the question of whether war is inevitable between the Communist and capitalist spheres was definitely overshadowed by less theoretical problems. All the news was about Francis Powers and his U-2 flight. Gorki Park in Moscow had long lines of Russians waiting to see the wreckage of the plane put on display in a simple pavilion. Still, talk of a possible war was nonex-

istent, at least among the Russians I met. This was confirmed for me by the more practiced Western observers on the scene.

I concluded, rightly or wrongly, that the lack of bellicose talk by the man in the street must be due as much to prompting from above as to a general abhorrence of war's devastation. But if this was true, certainly a high degree of official commitment to a policy of peaceful coexistence, at home as well as abroad, was indicated. Such a commitment is actually reflected in the attitudes and opinions of Soviet citizens from various walks of life.

Voices from the past

It was in the *casbah* section of Tashkent, capital of the central Asian Uzbek Soviet Republic, that I heard a remarkable expression of the common man's opinions of Khrushchev's policies. I was taking an unscheduled walk through the "old city" with a Russian-speaking French tourist when I noticed a photogenic old Uzbek sitting cross-legged in the shade of a wall. We wanted to take his picture, but he demurred. It was only after I remarked that the people of Timur-i-lenk (Tamerlane) had always interested me that the Uzbek warmed up. He started boldly by telling us that he himself was thought to be a direct descendant of the great conqueror. When we accepted that without apparent doubts, he answered questions as rapidly as we could ask them.

Did he remember the Tsarist days? Yes, they were bad days. The Russian officials under the Tsar had been cruel to the Uzbek people.

Had the Revolution brought him

a better life? Yes, he had learned to write his name in Russian.

Was that good? Certainly. One should know how to write his name.

Was he living more comfortably now? (Shrug) He lived in the same house his father had built with his father. No one had taken that away from him.

Did he work? No, he was too old to work. He was on a pension. There were no pensions before the Revolution.

How did he account for the barefooted, ragged children in the "old city" and their well-dressed counterparts in the Russian-dominated new Tashkent? Some people preferred old ways for themselves and their children, so the government left them alone. Others wanted to change, to get ahead, and they were the first to be moved to new quarters. Soon everyone would be moved whether he liked it or not.

What did he really think of the Russian Revolution? It had brought about many changes.

Did he approve of what the Revolution was doing? That depended on who was running things.

What about Lenin? He had called attention to the Tsar's dirty linen and collected them for a washing.

And Stalin? He had done most of the washing.

And Khrushchev? He hung out the wash on the tail of Sputnik so everyone could see how the Revolution had cleaned things up.

What about the future? The wash still needed pressing and folding. Khrushchev would see to that next, if war did not come.

Where did he learn so much about laundering? You should have seen

him all dressed up when his grandson married.

Did he think Khrushchev could stay on top long enough to iron out the wrinkles in Russia's clean laundry? Yes, of course. Nikita had the footing of a goat. He could get to wherever he wanted to go.

Setting a new line

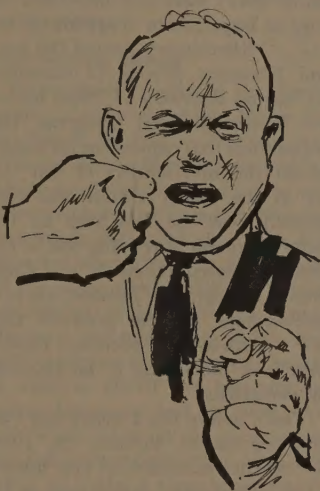
This talk with a Uzbek septuagenarian was in many ways the most interesting interview I had in the Soviet Union. It was remarkable that the old man, illiterate as he was, coupled peace with the future progress of the U.S.S.R. It was also interesting that he referred to Khrushchev by his first name, which speaks volumes for the kind of image the Soviet leader has projected among the people.

Certainly the old Uzbek was right about "Nikita's" sure footing. The November 4 reports of Khrushchev's eclipse were, to say the least, premature. More important, an earlier telegram from the Chinese leaders pledging "eternal, inviolable, fraternal friendship" was capped during the week of November 7 by a public show of acceptance by all Communists, *including the Chinese*, of Khrushchev's personal turn in the theory of coexistence. Thus, what had threatened to be a major ideological quarrel between the two great Communist powers was resolved in favor of the top man of the Kremlin. "War is not inevitable" is now the official doctrine of the Communist world.

None of this could be foretold last June when I was in Moscow. During my brief stay in the Russian capital, I had the opportunity to exchange views on peaceful coexistence with a professor of history from Moscow University. Prof. G was a pleasant man of retiring disposition, but he had the annoying habit of nodding, as I spoke, in the way a professor nods when he listens to an eager student. My point was that *indefinite* peaceful coexistence had to be contrary to Soviet theory as enunciated by Marx, Lenin and Stalin, and therefore the West was justified in not taking at face value Khrushchev's coexistence proposals. Prof. G's response, which I set down with reasonable accuracy as he spoke, was

as enlightening as it proved prophetic.

"I am surprised and happy," he said, "to see that you are so well informed about the theoretical base of our past progress. But you are *too* literal, *too* inflexible in your interpretation. Remember one thing, please. Soviet society was meant to be dynamic. We have reached a stage of development where we can become even more dynamic. You should not look upon the teachings of our inspirers as a beacon from the past revealing our present and lighting the way to our future. We



can and will change whatever needs changing. Only progress is a constant measure of truth in our dialectic. This is what I try to teach my students. But this is not what I was taught. Times change."

Two weeks later, on June 21, Khrushchev appeared before the Congress of the Rumanian Workers Party in Bucharest and repeated in more forceful terms what I had already heard from Prof. G. As reported in the press, Premier Khrushchev had this to say:

"We live at a time when Marx, Engels and Lenin are no longer with us. If we act like children learning their ABC's and spelling out words, we shall not go very far. . . . Based on Marxist-Leninist teaching, we must think for ourselves. . . . All this entitles us to

assert with certainty that under present conditions war is not inevitable."

In essence, Khrushchev was calling for a reinterpretation of the holy books of communism to fit new circumstances. He was content to grant that the works of Lenin, Marx and Engels would live forever because they "pointed the way." But beyond that, Khrushchev made a bold bid to have peaceful coexistence accepted as a new doctrine. His performance was all the more remarkable because it came barely six weeks after his wrathful foreclosure of the Paris Summit meeting.

As I think back now of my talk with the quiet professor in Moscow, I am constrained to conclude that a rather surprising development must be taking place in Soviet life today. Since we can safely assume that Khrushchev was not taking his cue from Prof. G, it must be that the Soviet leader was putting his stamp of approval on that which had already become an intellectually plausible, satisfying and fairly widespread credo among the Soviet new class of bureaucrats, managers and opinion molders. And while it would be dangerous to assume that another sudden ideological reversal is unlikely, there is considerable evidence to support the view that Khrushchev's call for peaceful coexistence is more closely sewn to the fabric of Russian society than any other ideological pronouncement of the past generation.

Still, one inevitably wonders how safe it is to assume that Khrushchev's peaceful coexistence is a stable aspect of Soviet policy. In order to seek an answer to that question, one must attempt to test peaceful coexistence against the metal of the most profound and enduring interests of the Soviet Union.

Test of a theory

There are three related areas of concern that can be said to encompass everything that ever has been, or will be, important to the Soviets. The first of these involves a theoretical justification for the Communist revolution—a need to define exactly what role the revolution is supposed to play in the course of the world's history. The second involves the relations of the Soviet Union with the

other nations of the world—capitalist, neutral, and socialist-communist. The third area of concern involves the economy of the Soviet Union itself, the robust growth of which is considered essential for the attainment of all the goals that needed 40 years of subsistence living to bring within sight.

The West, in my opinion, has not correctly assessed the role of theory in the pattern of Soviet behavior. It is true enough that since the entire basis for revolution was set on the platform of Marxian dialectics, the formulation of theory has become an intellectual habit among the hierarchy of the Communist party. In practice, however, the theoretical mechanisms for action enjoy considerable leeway.

I was surprised to learn that though most people in the Soviet Union, as in the United States, talk about Marx a great deal, few actually read him. In fact, Marx and Lenin are now accorded such an exalted place on the tree of human life, as depicted on the wall of Moscow University's main lobby, that no one dares to understand these geniuses except through official interpretation.

Response to needs

All this leads to an interesting and inevitable conclusion. Theory in Soviet ideology has a long history of adaptability to current needs. Lenin subverted the theory of "permanent revolution" to institute his New Economic Policy, a return to capitalism. Stalin interrupted the theory of world revolution to accommodate his own theory of socialism in one country first. There is no evidence that the doctrine of immutability of original aims has ever gained precedence over the crying needs of a current situation.

Lenin and Stalin were able to revert to original aims once an expedient departure had served its purpose. It was Khrushchev's lot to encounter a development of world-shaking impact that required an accommodation to a *permanent new need*.

Stalin was a dictator in the era of atom bombs. The three years after he died saw the Soviet Union rival the United States as a hydrogen bomb power. The stakes were too



high to keep on the books Lenin's belief that "wars are inevitable so long as imperialism (capitalism) exists. . . ." Khrushchev started the long and laborious process of changing all that on February 14, 1956, before the Twentieth Party Congress. His declaration that capitalism no longer meant the inevitability of war (as far as the Soviet Union was concerned) was the first step in the painful process of revising one of the most reiterated tenets of the Communist liturgy. He justified his pronouncement on the grounds that the "peace-loving, socialist forces" were now too strong to be attacked by capitalists.

Then, before the Twenty-first Party Congress on January 28, 1959, Khrushchev extended his new theory. "Two world social systems are in existence: capitalism, living out its last days, and the ever-growing, vital forces of socialism. . . . The danger of a capitalist restoration in the Soviet Union is ruled out. This means that the victory of socialism is not only complete but final."

Thus in one blow Khrushchev eliminated the last chance of capitalism in the Soviet Union, thereby eliminating the need to do anything about capitalism. The Revolution had completed all its goals, save increasing its fruits at home for the people. History would take care of the progress of socialism in the rest of the world.

This decision to let history instead of bombs decide the fate of capitalism ran counter to the orthodoxy of Chinese Communist theoreticians. The much-publicized rift of the past year was in very real measure an

argument over war or no war, although at times it took on the guise of a debate over who had the better blueprint for communism. Khrushchev sounded as though he wanted to live and let live ("The very concept of capitalist encirclement of our country is in need of serious clarification. . . . It is not now known who encircles whom. . . . It is impossible to regard the socialist states as some kind of island in a seething capitalist ocean."). The Chinese, for their part, denounced those who "exaggerate the consequences of the destructiveness of nuclear war" and predicted that a Communist Utopia would flourish "on the debris of dead imperialism. . . ."

Stakes are high

To say that the Russian people have more to lose than the Chinese from a world blasted by hydrogen bombs is to state the obvious. For that matter, the non-Communist world also has a very large stake in Khrushchev's differences with the Chinese. Whether the recent meetings in Moscow really and finally settled the ideological tug-of-war between Moscow and Peiping remains to be seen.

That there has been a breakdown in people-to-people diplomacy between Russians and Chinese was made apparent to me on two separate occasions. A young engineering student expressed this surprising sentiment: "They are all over the place," he said, referring to the Chinese students at Moscow University, "taking up precious space that we could use. Some day they will thank us, I am sure, by overrunning us completely." Another time at the Moscow airport I ran into a large Chinese delegation waiting to board a flight to Peiping. "Don't get lost in that group," a Russian woman warned me half-seriously. "They are a hardheaded bunch. You will never be heard from again, and we will be blamed."

Whatever the future of Russo-Chinese relations, the problem remains that we in the West must correctly assess Khrushchev's peaceful coexistence policy. If it is an inescapably permanent policy (so long as we do not let down our military guard) and if it has real roots of

conviction among the Russian people (as I believe it does), what is its meaning to the future of East-West relations?

Clearly the economic race is on. So long as the military capabilities for mutual destruction remain constant, the economic arena becomes the place for competitive, peaceful coexistence. Khrushchev is apparently not afraid to place the Soviet Union in this arena against the United States. He is unafraid, not because he expects to catch up with the U. S. standard of living within the next 10 years, but because he expects to show the world that under socialist techniques of state planning the Soviet Union will *catch up enough* to demonstrate its potential superiority.

By 1963 the Soviets hope to produce as much milk, meat and butter, on a per capita basis, as the United States. What would that prove? According to Khrushchev, the Soviet Union will have "shot a highly powerful torpedo at the underpinnings of capitalism."

In the industrial sector, the Soviet target is to attain 85 per cent of U.S. production figures by 1965, and then forge 14 per cent ahead by 1970. It is more likely that by 1970 the Soviets will reach the current U.S. capacity in steel, electric power and petroleum, and exceed by a considerable margin our likely output of coal, cement and machine tools. The current annual Soviet investment in producer goods industries, mining and electric power is already on a par with that of the United States.

Considerable quantitative progress is expected in consumer durables as well, although the qualitative factor is bound to be incidental for a long

time to come. The Soviet targets concede nothing to the United States except a clear-cut superiority in automobile production. Sales of washing machines, for example, are expected to reach 4,600,000 units by 1965, exceeding 1959 sales in the United States by 600,000. This would represent a sevenfold increase between actual 1959 sales and those projected for 1965, not an unlikely performance when one considers that only 3,600 units were sold in 1953. Similar breakthroughs are expected in refrigerators, TV sets, shoes, vacuum cleaners, and wool and cotton cloth. A 40 per cent increase in the production of consumer goods within the next three years is definitely within sight.

Peace without blessing

Everywhere I went in the Soviet Union there were high hopes for the future. A doctor in Leningrad was sure that in five years he and his family would be living in a new and more spacious apartment. A Moscow taxi driver lamented that in a few years he would have to fight traffic all the way to the Bolshoi Theater. An official of the Foreign Trade Ministry pounded his thigh and exclaimed that in five years he would be able to afford the best marine paints Denmark had to offer. All such hopes hang on the expectation that the current Seven-Year Plan will fulfill its goals, *if there is no war*.

Thus, peaceful coexistence meets the test of serving all of the important goals of the Soviet Union. The victory of socialism in the Soviet Union is complete, according to Khrushchev. It can be left to peaceful competition, therefore, to bring the final triumph of communism

throughout the world. In the meantime, the socialist Utopia is to be improved at home and encouraged in other "friendly states."

If the costs of conventional arms can be safely reduced, so much the better; this would add another \$6 billion to the \$20 billion a year more the Soviets will have available by 1965 for investment in, or purchases of, heavy industry, consumer goods, foreign assistance, and research and development programs. Moreover, by 1965, if peace prevails, the Soviet Union expects to decrease the proportion of its annual investment going into basic industry and to increase (perhaps double) the portion going into the production of consumer goods.

It is now most probable that the well-studied Western techniques of linear programing and input-output analysis will be put to the greatest use by 1965 in the production and marketing of consumer goods.

Thus, from ideological rationalization to practical economic necessity, Khrushchev's peaceful coexistence covers the gamut of Soviet needs. In substance, the West is faced with a unique challenge. Although nuclear warfare may be eliminated, conventional turmoil and revolutions are not. And though the clear-cut economic victory of the Soviet Union is not yet in sight, her successes to date are dramatic and her methods increasingly attractive to the world's underdeveloped economies. If nothing else, peaceful coexistence certifies the co-star status of communism's role in the world theater. It will take the best and most modern techniques of self-protection by the West to keep from being upstaged. ■



ADMINISTERED PRICES VS. PRICE WARS

by IRWIN M. STELZER

■ BOTH POLITICIANS and economists have recently been concerned with the phenomenon known as administered prices. Generally, it is agreed that prices charged by manufacturers for many products are, within varying time limits and ranges, determined by corporate officials. Debate over the nature and extent of such pricing has raged before Congressional committees—most notably Sen. Kefauver's Antitrust & Monopoly Subcommittee of the Committee of the Judiciary. But at the same time the business press has been devoting increasing space to troubled analysis of price wars on the retail level. Thus we have an apparent difference that demands explanation.

To give one instance of price warfare, the Benrus Watch Company is reported to have expressed concern about "price chaos." It reacted to this situation by introducing a \$25 watch with margins, according to *Business Week*, "whacked down to the point where substantial price cutting won't be feasible as in the past."

General Electric, on the other hand, reacted to price cutting by refusing to pay for cooperative advertising by dealers whose prices were below a stated floor. Significantly, the floor set up by G.E. was a percentage below suggested list prices.

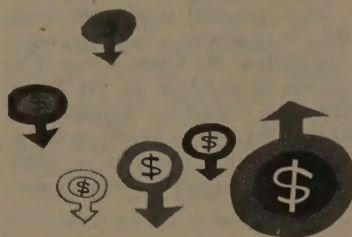
Implicit in the tone of the business press is a feeling of concern about price cutting—a feeling which leads to a difference with most economists. To the latter, most price cutting is a healthy manifestation of vigorous competition. Their position is based on a simple assumption: the ultimate goal of economic activi-

ty is to maximize consumer welfare and resource use. This, therefore, should be the goal of public policy.

Let us examine these two sets of apparent differences. First, administered prices vs. price wars; second, concern over all price cutting vs. approval of price cutting.

To the casual observer the fact that economists are concerned with administered prices while price wars are raging might well appear to indicate that the economists have once again failed to read press reports of what is going on in the real world. In fact, however, the existence of administered prices is not at all inconsistent with what seems to be a chaotic situation in many retail markets.

Perhaps the oil industry provides the best example. Despite the much



publicized oil glut, United States crude oil prices have been remarkably firm. Though substantial excess capacity exists, it has caused no general crude oil price cuts. So artificial is the crude price that in June, 1953, for example, it was increased from \$2.65 to \$2.90 per barrel despite high inventories, considerable excess capacity and a generally bearish outlook.

A precisely opposite situation,

however, characterizes retail gasoline markets, which have been the scene of some of the hottest price wars ever witnessed in the retailing field. Dealers in New Jersey felt so threatened by one of the more recent price wars in their state that they instituted their own police action against aggressive dealers.

The technique they adopted was simple: form lines of cars at the cutters' stations, purchase one gallon of gasoline and demand to have oil, water and tires checked, windows wiped, and service facilities made available to restless child passengers. This tactic so reduced sales volume as to cause compliance with "fair" price levels.

Another industry—in which the economists' concern about a high degree of concentration of production and administered prices is matched by the business press' emphasis on price cutting—is the automobile industry. With a handful of firms sharing the bulk of the market, one would expect some degree of price orderliness. Yet the *Wall Street Journal* quotes a New York Ford dealer as stating that discounts are "getting to be a 12-month thing now. It used to be that list prices held up for the first three or four months [of the model season], but nowadays people come and talk prices on opening day."

The contradiction between administered prices and price cutting is more apparent than real—for two reasons. First, retail price cutting is by no means a disorganized malfunctioning of the pricing mechanism. Rather, it is both less severe and more easily understood than would at first appear. Second, administered prices are found in a part of industry which has been relatively free of such price weakness and readjustments as have characterized the retail level.

Much of the most publicized price cutting has been confined to list prices of commodities which at one time were fair traded. For example, Sunbeam established a fair trade retail price of \$46.50 for its famous "mixmaster." This appliance, sold to dealers at a cost of \$29.70, was then being marketed in the non-fair-trade states of Texas, Missouri and Virginia (and in the District of

Columbia, an area protected from fair trade laws by price-conscious Congressmen and their wives) for \$34.79. A series of legal decisions in state and federal courts has, over the past 10 years, steadily decreased the geographic area in which fair trade can be applied.

More importantly, fair trade has proved difficult, if not impossible, to enforce even where it is legally defensible. As early as 1949, Consumers Union advised its members that "you can buy nationally advertised and price-fixed brands of many products at substantially (10 to 50 per cent) less than fixed prices in many large cities" in discount houses typically located "by tradition on the second floor of an office building, or out of the main shopping district. . ."

Dramatic but limited

By 1954 the National Distribution Panel of the United States Chamber of Commerce was reporting that retail discount sales were totaling \$25 billion annually, or 18 per cent of national retail volume. By 1956 *Business Week* was reporting a survey which showed that anywhere from 42 per cent to 53 per cent of air conditioners, dishwashers, floor polishers, electric ranges, refrigerators and the like were bought at discounts below list prices. As this survey excluded New York and Chicago—both big discount centers—it probably considerably understated the importance of discounting.

What must not be overlooked is that price cutting of fair traded items, while often dramatic, is limited in over-all impact. Fair traded merchandise never represented a major portion of goods sold; perhaps it was 10 per cent at its peak, according to the American Fair Trade Council.

It is true that, immediately after the Supreme Court's 1951 blow to fair trade, Macy's began selling a Toastmaster listed at \$23.00 for only \$14.72, while Gimbel's marketed *From Here To Eternity* for \$1.94, though its list price was \$4.50. But this should not obscure the more important fact that the bulk of these stores' traffic was in goods unaffected by the spectacular—and temporary—markdowns. Macy's, for example, was at the time marketing more than

1,400 items under its own brand name; sales of privately branded television sets, for example, accounted for 75 per cent of the big store's television volume.

While discounting is widespread in the appliance field, and in some others, it does not affect the bulk of consumer goods. Further, some of the surveys cited above date back more than 10 years, indicating that such price cutting as exists is hardly of very recent vintage. Another consideration is that this price cutting stems from downward pressure on artificially created retail margins; it is merely an adjustment of fictitious list prices to levels actually prevailing.

General Electric, for example, introduced a policy of "realistic" pricing whereby prices of major appliances were to be allowed to "glide down to the more realistic level of the market place," while list prices on smaller appliances—toasters, skillets, mixers, vacuum cleaners—were cut five to three per cent "to conform to the reality of the market." It does not seem entirely appropriate to consider as chaotic a cut in a list price from \$19.95 to \$17.95 on a toaster which at the time is selling for \$12.95 in Detroit, \$12.74 in St. Louis and \$12.85 in Dallas.

To the extent that real as opposed to list prices have been under pressure, that pressure is the result of broad economic forces, not a sudden merchants' penchant for anarchy. The colorful prose of the businessman is often based on the assumption that price reductions are intrinsically "unfair" and "cut-throat" and introduced by "chiselers." In fact, basic forces are in operation, some of postwar vintage, others of a longer-term nature.

Incentives to price cuts

The rebirth of European and Japanese industry has caused an increase in the volume of imports in many lines. These range from mass-produced, low-price items, such as blouses from Japan, to high-ticket durables, such as autos from Germany, England and France. They also include such high-fashion, high-price items as ladies' shoes from Italy. American manufacturers, insulated from such competition for a

decade, were compelled to adjust to it by altering product lines (witness the "compact" cars) or by cutting prices.

Another basic force which has affected prices and price policies is technological change, neither a new nor disturbing element. New production techniques have made possible \$10 and \$12 wrist watches, 25-cent ball point pens and other economy models. Such models are, of course, not perfect substitutes for their luxury counterparts. They do, nevertheless, exist as a competitive element that cannot be ignored.



Yet another basic factor of rising importance is the steadily increasing mobility of the bulk of the consuming public. The flight to the suburbs has resulted in an integration of suburban and urban retail markets. The traditional local monopolist now finds that his customers commute daily to some urban center in which iniquitous discounters offer nationally advertised, serial-numbered products to mortgage-bearing, price-conscious suburbanites.

A final force worth mentioning is the vast improvement in marketing techniques. Introduction of efficiently organized self-service establishments operating on the low-margin, high-volume principle has not been confined to the food industry. Appliance dealers, hardware firms, large drug stores and gasoline marketers have all steadily improved their sales techniques. The result is that the consumer now often has a choice

between high-service, high-price establishments and self-service, low-price outlets. Previously, he bought and paid for service whether he wanted it or not.

Two conclusions, then, seem to be warranted. First, the extent of price chaos on the retail level has been overemphasized. Second, such price cutting as has occurred can be attributed to broad economic forces which, often after a wartime hiatus, are having their impact on retail markets.

Thus far, however, we have talked largely in terms of retail prices. But price cutting on the retail level can exist along with a pattern of administered prices on the *manufacturing level*. Herein lies the key to the apparent difference between the business press and the economist. Automobiles provide a perfect example. The discounts given to customers on new cars have been absorbed largely by the 45,000 dealers; the base prices charged by the handful of manufacturers are, in the words of one industry analyst, Prof. Donald A. Moore of Michigan State College, characterized by "downward rigidity . . . during a buyer's market. . ."

Manufacturer-to-retailer gap

There is no indication that the discount to dealers from factory list prices has increased from its traditional 24 to 26 per cent. In fact, on so-called compact models manufacturers allow only a 20 per cent spread between factory prices to dealers and the "advertised delivered price."

At times, of course, pressures at the retail level are transmitted back down the line. In the gasoline price war which raged in Connecticut in 1950, for example, retail prices fell by five cents per gallon. The retailer bore 1.5 cents of the cut, the wholesaler one cent, and the major oil company suppliers 2.5 cents. Significantly, however, the pressure did not reach the crude oil markets.

The reason for these differences in price behavior at the retail and manufacturing levels is to be found in terms traditionally employed by economists. Many American industries are assuming the shape of an inverted pyramid. At the bottom

are a very few manufacturing firms, each with considerable discretion over its prices, each acutely aware that price cuts may be met by rivals, each loath to initiate downward price adjustments to meet declining demand. The top of the inverted pyramid is often occupied by thousands of retailers, each convinced that a price cut, perhaps in the form of a "special," will yield at least temporary advantage.

Furthermore, entry into many manufacturing lines typically requires a significant capital outlay; but this is not true of the retail field. High margins attract newcomers to retailing, but each seems willing to shade those margins just a trifle.

One question remains. If retail price cutting, restricted though it may be, results in the elimination of the small retailer by the big chain store or discount house, should public policy encourage or discourage it?

Underlying much of the argument over the proper legislative program to be adopted with regard to the small businessman, and the retailer in particular, is an often unstated difference of opinion concerning the goals of our public policy. If we assume that this policy has as its sole goal the maximization of economic efficiency, many of our public policy problems are simplified. If the big chain store or discount house is more "efficient" than the smaller retailer, then, by this standard, we would allow the latter to perish in the economic struggle.

Theoretical—and perhaps even actual—advantages would, we are told, flow from such a system of Darwinistic competition. Nevertheless, it is difficult to accept the view that our public policy should be

designed to legislate such a system into being. Rather, it can be shown that the relevant declarations of public policy in this field, and our anti-trust laws in particular, have social as well as economic objectives.

The problem of a possible conflict between our desire for maximum economic efficiency, on the one hand, and, on the other, our desire to avoid excessive concentration of economic (and perhaps political) power has repeatedly been considered by eminent jurists and economists. Thus, one of the nation's leading jurists—Judge Learned Hand—pointed out in an antitrust decision: "We have been speaking only of the economic reasons which forbid monopoly; but, as we have already implied, there are others, based upon the belief that great industrial consolidations are inherently undesirable, *regardless of their economic results*. . . Throughout the history of these statutes it has been constantly assumed that one of their purposes was to perpetuate and preserve, *for its own sake and in spite of possible cost*, an organization of industry in small units which can effectively compete with each other." (Emphasis added.)

In essence, this means that *even if* the preservation of small, independent businessmen involves a sacrifice of efficiency—and nowhere has such an argument been conclusively proved—such a sacrifice is a small price to pay for the social and political benefits of a society in which economic power is widely diffused.

Justice Douglas has vividly set forth the social costs which must be given weight: ". . . there is the effect on the community when independents are swallowed up by the trusts and entrepreneurs become employees



of absentee owners. Then there is a serious loss in citizenship. Local leadership is diluted. He who was a leader in the village becomes dependent on outsiders for his action and policy. Clerks responsible to a superior in a distant place take the place of resident proprietors beholden to no one. These are the prices which the nation pays for the almost ceaseless growth in bigness on the part of industry."

Economists, too, have begun to recognize the folly of relying on some

form of economic calculus to determine proper public policy. Economic considerations cannot, of course, be ignored; rather, they must be weighed in the balance with other noneconomic factors.

Would an economist's proof that the organization of German industry in the late 1930s was one which achieved an optimum use of that nation's resources—using the word "optimum" in a strictly economic sense—convince anyone that we ought to encourage similar carteliza-

tion? Or would one not be inclined to inquire into the political price paid for this assumed economic efficiency?

Professors Joel B. Dirlam and Alfred E. Kahn summed up the situation neatly when they said: "Clearly we are not devoted to a competitive system only for 'economic' reasons. It is also associated with such social and political ideals as the diffusion of private power and maximum opportunities for individual self-expression." ■

The many sides of unemployment

How to Deflate the Labor Force

by A. H. RASKIN

■ ONE OF the nation's worries in the postwar period has been the extent to which unemployment has crept upwards even in years of high-level economic activity. A controversy has emerged over how much joblessness is too much. But this controversy has not brought about an adequate exploration of the measuring rods we use to determine the level of unemployment. If a certified public accountant handled the records of his business clients on the same basis as we presently handle our social accounting, he would be exposed to charges of illegally keeping double books.

Certain factors tend to keep our already disturbingly high unemployment rate from appearing much higher. Even the most casual survey of our manpower policies indicates that millions of men and women are not working simply because working members of their families are already earning high salaries at high-productivity jobs. Thus, there is no need for many people to enter an overfull job market for the sake of improving their standard of living. Their standard of living is already high.

On the other hand, if we applied

to this group the criteria of employability we use in wartime, when any warm body qualifies for employment, we might find it necessary to push our calculation of the idle rate from its present range of five to six per cent to something in the neighborhood of 10 per cent. Obviously, however, such a yardstick would be unrealistic as long as our productive capacity in steel, coal and other basic industries far exceeds our ability to use it all.

How much of our invisible force of potential workers, then, *should* we treat as a form of disguised unemployment, and how much should we consider a stabilizing factor contributing to the long-term strength of our industrial society?

First, we must consider the perennial issue of what constitutes a day's work. This is much more complex than is the debate over "featherbedding" in the railroads or the management campaign for the revision of work rules to root out manpower waste in the steel mills. Certainly it is true that some unions are fighting a rear-guard action against technological progress by dragging their heels on the elimination of unneeded

jobs. But it is also true that, in return for management guarantees to maintain employment by allowing the continuation of certain "wasteful" practices, unions have made concessions allowing management to cut down labor costs or heighten productive efficiency in other ways.

For instance, plant supervisors in the steel industry, eager to win local union agreement for specific changes in work assignments, sanctioned "early quit" arrangements or allowed workers to take lunch breaks on company time. A broad variety of such exchanges of privilege between management and labor at the local level came to light in the inquiry by the President's emergency board in the 1959 strike.

On the railroads a similar process of horsetrading has left a hodgepodge of rules, some of which are as inequitable for train crews as others are costly for their employers. Many railroad workers are still on a basic six- or seven-day workweek 25 years after the five-day timetable became virtually universal in other industries. This is one facet of the double-edged quality of the "featherbedding" issue.

Another can be seen in the layover rules, under which engine crews, conductors and brakemen put in many hours of uncompensated waiting time. It will be hard to evaluate to what extent these "thornbedding" practices offset the cost of such payroll-inflating factors as the retention of unneeded firemen in the cabs of diesel locomotives or the assignment of excess personnel under so-called "full crew laws."

Obviously, the best approach to a balanced judgment is a long-range study under impartial leadership of the type Secretary of Labor Mitchell has arranged. The railroad commission should provide the first objective measure of whether a lot or a little manpower goes down the drain through unjustifiable union restrictions in this key industry. Unhappily, little headway is being made toward a comparable appraisal in other fields.

Surplus jobs are being perpetuated at the executive and supervisory level in exactly the same way that unions fight to maintain them at the blue-collar level. Indeed, the bureaucratic nature of our industrial structure does more than union-enforced make-work rules to create what might be termed on-the-job unemployment.

This is the conclusion of Prof. Eli Ginzberg of Columbia, Director of the National Manpower Council, after years of analyzing the personnel practices of giant corporations. The proliferation of subsidiary enterprises creates layers of new headquarters, each with its own managerial, clerical and liaison staffs. Mountains of papers make their sluggish way "through channels," and everyone is imbued with a jolly sense of usefulness until a slump in business activity causes a temporary shakeout of many who never should have been there in the first place.

In some companies junior officials fear to go off to executive training courses lest their absence disclose too starkly what a small function they fulfill. And, of course, no time-waster has ever been discovered that matches the "conference," as carried to its ultimate form of pomposity in Wall Street, Madison Avenue or the Pentagon.

In the factory, electronic controls

are becoming the tsars of the production line in a way that makes it harder and harder for the work force to establish its own pace. Nevertheless, the factory rhythm is inevitably affected by how much or how little sense of urgency governs both management and men. When the steel mills operate at half of capacity, the conviction that faster work means



faster layoffs becomes a potent counterweight to the lure of incentive premiums for high output.

It would be manifestly impossible to try to estimate how many workers could be eliminated from all levels of all branches of public and private employment with no impairment—and perhaps even an enhancement—of over-all performance. It is instructive, however, to notice the extent of manpower savings that have been made without benefit of radical changes in technology in certain companies. In these cases, labor and management embarked on co-operative programs to erase unneeded jobs while protecting the security of the jobholders.

Rationalization of jobs

In the New York subway system, for example, the Transit Authority has eliminated 7,600 of its 43,000 jobs through a process of attrition and not of forced layoffs. When the Long Island Railroad agreed to install a five-day week for its trainmen, the revised timetables called for only 39 new men, instead of the 160 who would have been required if there

had been a straight translation of the work patterns maintained under the old six-day schedule.

The most conspicuous reflection of the tie-up between the size of the idle work force and the state of the job market is in the number of women looking for work. In centers of heavy industry, tens of thousands of women never seek work because employers have little desire to hire them, and because they find the kinds of work unappealing. When more diversified job opportunities present themselves through the introduction of such light industries as electronics or garment manufacture, these same women become the mainstay of the job force.

Perhaps the most vexing problem on the distaff side is in the limited options open to women over 40, especially those who have spent their intermediate years raising families and now find themselves with few household responsibilities and a consuming desire to find new avenues of usefulness. The sense of being shut out of any worthwhile role is likely to be particularly acute among women of college background whose husbands have achieved positions of responsibility that obtrude on their home life.

Social featherbedding?

Every aspect of expanded education, increased enjoyment of leisure time and encouragement for early retirement provides a fresh measure of the inexact character of our barometers of unemployment. It may be highly desirable that a psychiatrist's professional preparation be so thorough that he can just begin to practice at 40 years of age. But is it anything short of social featherbedding to insist that dance instructors, stewardesses or typists earn college degrees before they qualify for their first job?

Some school administrators are convinced that one-quarter of the youths in the 14- through 17-year age bracket in urban schools get nothing of value out of the continuation of their educational experience. On the contrary, these educators feel, keeping the boys in classes for which they are totally unsuited spurs them to delinquency and therefore has a minus produc-

tivity in terms of scholastic benefit.

Similarly, at the other end of the age spectrum, thousands of aging persons wait glumly until they become eligible for their social security checks. Even at 65, there is a reluctance to sit in a rocking chair and vegetate. But for many the feeling of discard comes 10 or 20 years earlier.

I remember meeting three men on a slag-paved street near an abandoned coal mine. Two of the men were old-timers; the third was a husky six-footer in his early forties. I asked him what he was doing. "Just waiting till I can get lucky like them two and draw my social security," was his matter-of-fact reply. He had stopped looking for any kind of steady work; he was no longer even a number on the unemployment rolls.

Shortening work span

Actually, there is no statistical evidence that the extension of the school process or the speeding-up of retirement is giving us such an overupholstered economy that we will lack people to do the work necessary to accomplish our national goals. The proportion of the adult population in the labor force is not going down.

Twenty years ago, before World War II introduced a new look into manpower practices in private and public employment, 56 per cent of all adults were in the labor force. In 1950 the ratio stood at a little over 58 per cent. It is still at that level. The only real bulge in the proportion came in the war years when nearly 10 million citizens were in the armed forces and nearly two-thirds of all adults were included in the labor force.

By shortening the span between the tollgates which mark the beginning and the end of the average American's working life, we are giving expression to our concept of the good life. We are proud of our ability to open up new vistas in higher education for our rising generation. We recognize that our survival may be determined by the extent to which these young people expand the horizons of science and of international understanding.

By the same token, we feel that the fabric of our society is fortified



when we remove the financial hazards of old age and extend to elderly people the opportunity to enjoy a dignified withdrawal from the rigors of over strenuous employment. But here again, in establishing a yardstick for unemployment, we face the question of where to draw the line. What part of the "unemployment" which results from prolonged education and early retirement represents social advancement, and what part represents a waste of human resources?

The same question is raised even more forcefully by the pressure for a shorter workweek to offset the liquidation of jobs by automation and other new industrial processes. The 40-hour week is no more sacrosanct than was the 48-hour week or the 72-hour week. On the other hand, it is perfectly apparent that cutting the standard workweek to 30 hours or even to 35 without cutting pay would throttle at the source much of our potential for making more goods at lower cost. This would wipe out a large part of the social gain the new productive techniques are supposed to bring.

We already have more than three

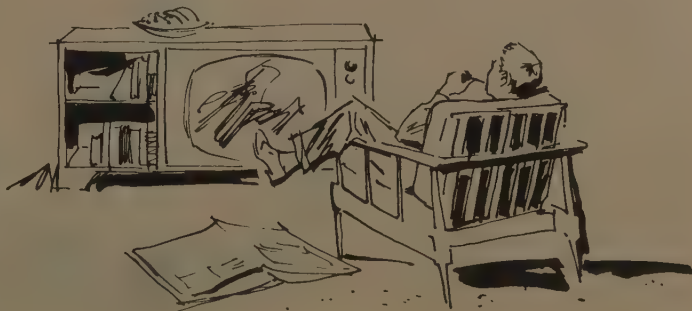
million workers on work schedules cut short by lack of orders in mills, mines and factories. At a time when Premier Khrushchev has vowed to bury us on the production front, it hardly seems feasible to solve the urgent problems of unused manpower by spreading the work force even thinner. It would seem that what we need are more job opportunities on a full-time basis.

The Department of Labor insists that the problem of the 1960s will be *shortages* of skilled labor, not surpluses. It has marshaled impressive statistics in support of its view, but those have failed to persuade union economists. These men and others feel it will take a much steeper rise in economic growth than seems realistically attainable to take up all the slack in our job market.

Built-in unemployment

Under these circumstances it is less disturbing to have the productive economy burdened with a certain amount of built-in institutional unemployment than to have a heavy additional load of work seekers knocking at closed doors. To the extent that some categories of concealed unemployment of the "featherbedding" genre result in higher payroll charges with no compensating increase in output or quality, the effect is to aggravate our competitive difficulties in a rapidly industrializing world. But, as we have indicated, there are countervailing factors that tend to limit the net loss from this source.

The incentive for a shakeout of all wasteful practices and for a basic overhaul of our manpower utilization policies will only come when there is a much more convincing



demonstration than has been given thus far of the need for more effort and more austerity.

This is the real challenge for the national economy. It cannot be met unless we do a vastly more successful job than we have up to now of expanding our markets or shifting the focus of our economy in ways that will keep our factories and other productive facilities running near capacity the year around. John L. Lewis used to brush aside criticism of the coal strikes he once called with such frequency by noting that there was only enough market demand to keep the mines open 200 days a year, and, therefore, it mattered little whether the unionists were idle because he ordered them out or because the operators furloughed them for lack of orders.

The same situation now exists in steel. Within six months after the members of the United Steelworkers of America returned to the mills under a national emergency injunction, the strike-depleted inventories had been refilled and half the blast furnaces had been banked because no one wanted the metal. It is pointless to overhaul our manpower practices or to cavil about disguised unemployment when such a monstrous waste of our material resources goes uncorrected.

No task confronting the new Administration calls more importantly for attention than the activation of our industrial might. The Arsenal of Democracy is possessed of all the requisites for a new kind of war—one in which the victory will go to the economic system that proves best fitted to bring higher standards of prosperity and well-being to all the people of the world.

Until ways are found to face that challenge, the devices that take people out of the job market for schooling, home duties or early retirement will be regulators of the volume of idleness. They will stabilize, rather than dissipate, our manpower resources. It is true that a large-scale program of job retraining and upgrading of skills would represent a more fruitful method of utilizing idle time. But before such a program becomes practical, we will need a much clearer idea of what jobs we are going to need people for. ■

Notes on the Caribbean

The Costs of INDEPENDENCE

by KENNETH E. BOULDING

■ ONE OF the principal products of 1960 seems to be new nations. The British have long fancied themselves in the role of the midwife of nationhood. Now the French seem to be following very fast in their footsteps. Already, there are more members of the United Nations than constellations in the sky, and the number of nations is likely to increase even further. It is timely, therefore, to ask what will be the consequences, and especially the economic consequences, of so much newly created independence.

Throughout the world, movement is going on which can only be described as a "flight from empire." This may be either because empire has become economically unprofitable, or morally unpalatable, or both. Whatever the reason, the time seems to be not far off when colonialism will exist only in a relatively few areas. Perhaps Portugal and the Soviet Union will then be the last remaining representatives of the imperial order of things!

The Caribbean is an excellent place to study the developments of independence. It has extraordinary variety for such a relatively small part of the world. There are three

European colonialisms: British, French and Dutch, each with its own characteristic pattern. There is Puerto Rico which is a unique example of a new kind of colonial relationship. There is Hispaniola which represents, in many ways, the failure of old-style independence. Haiti, in the Western third of the island, may be said to represent anarchy; the Dominican Republic, in the Eastern two-thirds of the island, may be said to represent tyranny. Cuba is a fascinating example of the failure of what might be called quasi-colonialism. It rapidly seems to be turning itself into a socialist state headed for dependence on the rest of the socialist world and isolation from the world around it.

The British West Indies are advancing—with some slight reluctance—into nationhood, spurred by the sharp prodding of the British Colonial Office. The new Federation of the British West Indies includes all the British islands, with the exception of the British Virgin Islands; but it does not include the two British territories on the mainland, British Honduras in the West, and British Guiana in the East.

Politically, the Federation is a



somewhat shaky structure. The difficulty is that Jamaica achieved a sense of national identity before the rest of the West Indies, and hence Jamaica is somewhat restive in the Federation. The Prime Minister of Jamaica, Mr. Norman Manley, has called for a referendum next year to decide whether Jamaica will stay in the Federation. He has made support for the Federation a party issue, and his party is somewhat better organized than the opposition. There is therefore a good chance that the referendum will come out in favor of the Federation.

But it is also by no means impossible that the vote will go the other way. Jamaica is, at best, neutral toward a federation. It is a long way from the other islands. From Jamaica to Trinidad is as far as from New York to Wichita, and there is nothing between them but the sea. If it holds together, the Federation of the British West Indies would certainly be the wateriest of the new nations when it finally achieves the full stature of nationhood.

Trinidad, at the Eastern end of the arc of islands, probably has a much greater economic potential than any other West Indian territory. It has natural gas and oil, and there seems to be a peculiar economic charm about the islands of the continental shelf. In the next 50 years a great development of a petrochemical industrial complex could easily transform Trinidad.

The smaller islands are, of course, the great problem. Barbados, which depends on sugar growing for its livelihood, is desperately overpopulated, with nearly a quarter of a million people living on 166 square miles. But it also has a fair chance to develop industrially following the building of a new harbor. Antigua is developing a little tourist trade. St. Kitts remains in 18th-century slumber.

To be, or not

The Windward Islands also have a little tourism, but are severely overpopulated; and the really small islands like Montserrat have to live mainly on emigrants' remittances and British government grants. Not one of the smaller islands is self-supporting, and they will be a drain on

any federation. Part of the coolness toward federation in Jamaica unquestionably stems from an unwillingness to take on this economic responsibility.

The great question for Jamaica is whether a nation of three million people—the population of the Federation—is really any more desirable than one of 1,600,000—the population of Jamaica. The Federation, of course, could achieve some economies of scale in diplomatic representation, and perhaps in that ritualistic gesture toward defense which even the smallest nations feel they must make. The difficulties of the Federation, however, unquestionably arise out of the feeling in Jamaica



that the island could "go it alone," and that perhaps it is more important to the Federation than the Federation is to it.

On the other side of the scale, there is a feeling of cultural unity among the British islands. The West Indians are certainly not English, but they are, in a sense, British. They have inherited not only the English language and its literature, but also the main framework of British institutions. In contrast with their Latin neighbors, they have a tradition of orderliness. Jamaica, especially, has a functioning two-party system. The West Indians have a good indigenous civil service, a tolerant attitude toward religion and cultural diversity, a British-type banking system, and a safety valve for their population increase in immigration to Britain.

Society in the British West Indies has nothing Latin about it, and it retains only the most vestigial traces of African culture. The country people speak, for the most part, a language which might be described as a post-English language; it has somewhat the same relation to English that French does to Latin. In some of the British islands the country people speak, similarly, post-French, but they make up a small minority. The middle class speak standard English with a charming lilt. In spite of the fact, therefore, that most of these people are black and their ancestors came from Africa, they can claim to be at least as British as the Welsh.

In the Federation the visitor recognizes a certain style of life, whether in Jamaica, Antigua, Barbados or Trinidad. One's first impression, it is true, is of great differences in economic and social institutions. Behind these differences, however, there lies a truly West Indian style. At its best, it is a very friendly, pleasant, easygoing style of life, admirably suited to the perfect climate and the idyllic beauty of the islands. At its worst, as in the sugar towns, it is a disorganized existence of the worst kind without stable family life, without adequate social institutions, and without any economic base to make life decent.

The case for nationhood is due to the limitations of the human mind. I have already drawn an analogy between the nations of the United Nations and the constellations of the sky. The constellations are illusions of perspective; they correspond to no realities in space, but only to its appearance in the mind of man.

Microcosmic view

The nations of the earth exist because of the same defect and glory of the human imagination that creates the constellations of the sky. The great pattern of humanity is too large for us. We cannot identify ourselves with it. Hence, we break it up into human constellations—patterns of life and geography that we can demarcate from other patterns and with which we can identify ourselves. For some reason, it seems to be hard for a human being to throw out his chest and proudly

proclaim himself human. When he wants to throw out his chest, it seems to be necessary to do it in the name of his nation.

Nevertheless, throw out his chest he must. He cannot be satisfied to be identified with nothing in particular, or to be identified as an inferior member of a community. He must be a full member of a community even if that community is small. The economics of nationhood, therefore, must reckon with the psychology of nationhood; indeed, the economics is the price one pays for the psychological satisfactions.

Under some circumstances, the price may be small. The sense of identity which nationhood creates may so enhance the morale and energy of a people that it sets off on a course of economic development which it could not have achieved in a condition of dependence. The history of the United States and of the British Dominions shows that independence can be a psychological asset.

Indeed, independence can be an asset which is tangible as well as psychological. Economists are familiar with the argument for protection of "infant industries" from foreign competition. A protected industry may become competitive over the years and produce growth in the whole domestic economy as the industry expands. To put it in another way, a dependent and unprotected area may be enjoying the advantages of the international or interregional division of labor; but it may, at the same time, be sacrificing future development because of its inability to develop an integrated, local economy.

Control from afar

A somewhat similar political problem may arise in the case of colonial dependency. A colony always suffers—or enjoys—an extensive import of organization. The mother country usually organizes the colony's government and frequently organizes its religious and economic life as well. The colony finds itself constantly in the position of being at the extremity of an organization whose head is somewhere else. Its government reports to a metropolitan power, its churches report to a

missionary enterprise abroad, its businesses are often run by expatriates or are branches of organizations whose head offices are elsewhere.

The import of organization, while it may assist in the development of a territory, may also inhibit the development of local organizations. Political independence, therefore, can sometimes be seen as an attempt to protect the "infant industry" of local organization against too cheap and easy imports of organization from abroad; it is hoped, perhaps, that practice will make perfect and that domestic organization will develop. This hope has been justified often enough so that it cannot lightly be dismissed.

The case for nationhood is here seen to be something like the case for free competition. A world of small but interacting and related decision makers may be more productive of creative human activity than a world which is essentially hierarchical and in which authority is concentrated at the top.

All this may seem a long way from economics, but these considerations cannot be neglected in thinking about the economics of nationhood.



A few months ago in Jamaica I listened to a fascinating discussion between a well-known West Indian economist and planner and the charming wife of a famous West Indian educator. The economist had just been calculating the economic cost of independence and was gloomy about it. The West Indian lady exclaimed with romantic enthusiasm that she was willing to pay this price and that it would be better to have independence even if this meant teaching under the stars and in tents.

This psychological reaction is a very real product of the economics

of nationhood, which cannot be understood without it. It has to be respected, and at the same time one must constantly be on guard not to pay too high a price for it.

Perhaps the greatest danger to the West Indian Federation is that federation as an idea has been "oversold" to the people. They are now beginning to realize that the Federation has no resources beyond what they themselves put into it, and that it erects another level of government to be supported by them, over and above the governments of the constituent territories. The Federation is certainly no substitute for the British grants which have been poured into the West Indies for years. It could easily be a handicap to development, rather than a help, if the diversity of the islands prevented the federal government from reaching any true consensus.

There is a real difference at the moment, for instance, between the "liberal" policies of Jamaica and the more nationalistic and socialist policies of Trinidad. The difference may not, in the last analysis, be very great, but it may also be enough to prevent the federal government from

reaching that degree of political consensus which is necessary if a lively development is to go forward. This, again, perhaps explains Jamaica's hesitancy about the Federation. The Jamaicans are a little unwilling to exchange the going concern which they now have for the uncertain benefits of a larger but more diverse political unit.

Though federation would lead to economies, they can only be achieved if the federal government takes over many of the functions of the local governments. One of the odd, picturesque, but slightly impractical aspects of the British tradition is

that even the smaller islands have a full panoply of parliamentary and ministerial government; whereas one suspects that all the government they really need is a city manager. If the islanders' local pride makes this overelaborate apparatus of local government necessary, the economies of federation will be small or even negative.

Judicious adaptation

Moreover, the British ministerial system is poorly adapted to a small country. In a large country with a large parliament, such as Britain itself, a sufficient number of able executive officers can be found in the parliament to form an effective cabinet. In a small country with a small parliament, this is not likely. It would seem wise, in a small country, to have a system of government in which the chief executive is elected directly and can select his cabinet from the people at large. It would be a pity if the West Indians, in their loyalty to the many excellent features of the British tradition, saddled themselves with parts of it which are not appropriate to their needs.

When we turn from politics to economics, we find that the three greatest economic problems which the West Indies face—along with many other new countries—are population, education and foreign investment. The population problem is particularly acute in the West Indies; the health revolution has reduced the death rates in most of the territories to nine or 10 per 1,000, while the birth rates still hover around 40. This means a three per cent per annum population increase—almost unprecedented in the history of mankind. Furthermore, in relation to their existing patterns of economic life the islands are all overpopulated.

Jamaica, indeed, is rapidly reaching the point where any further increase in population in the rural areas would precipitate a major collapse. The island is mountainous, and—in parts of it—rainfall is heavy. It has been cultivated, at least in the mountains, by a system of shifting cultivation which permitted the land to rest for a period when it was not producing crops. As population in-

creases, this period of rest gets shorter and shorter. If the present pressures continue, it will not be long before erosion develops on a massive scale—in spite of all attempts to control it.

Industrialization and the development of import-export industries on the pattern of Puerto Rico could make it possible for the islands to support a much larger population. It is certainly possible that this might happen. The health revolution has made the tropics one of the healthiest places in the world as well as one of the most delightful from the point of view of the amenities of life. It will not be surprising if the world's people move from the disagreeable temperate zone into the tropics on a very large scale in the next hundred years. Given the right political atmosphere, there is no reason why the West Indies should not be a major participant in this movement.

The main obstacle to industrialization, however, is the inability of the educational system to cope with the enormous cohorts of children who now arrive year by year in increasing numbers. The West Indies are severely handicapped in this regard by an obsolete educational system. Education has been imported too literally from England, and the children have learned too much in school which was not relevant to their life.

It is only within the last few years that Jamaican school children, for instance, have escaped from memorizing the dates of the kings of England and dissecting the primrose—a flower that does not grow on the island. Many textbooks of magnificent irrelevance are still imported from England.

The problem, however, of diverting enough physical resources to cope with this massive educational problem may easily be beyond the economic capability of the Federation and other new countries which are increasing so rapidly in population.

Unfortunately, there are no signs in the Federation of any success in tackling the growth of population itself. Barbados is the only island which has made any attempt, and this does not seem to have been too

successful. A radical change in the system of customs and values is needed, especially in the rural areas, if the growth of population is to be slowed. Such a change seems to be beyond the capacity of the local politicians to achieve, and under the circumstances it is hard to blame them for being apathetic.

On the other hand, the road which the islands are following is so clearly leading to ruin that the time must come when something will have to be done about population increase. One only hopes that this decision will not be made too late, and that the islands will be able to produce leaders of sufficient courage and poetic insight to inspire the people to make the cultural changes which are necessary to survive in the modern world as a healthy and well-developed society.

The problem of the attitude of new nations, such as the Federation, to foreign investment is one of great interest and difficulty. The development of these societies from their own internal resources is possible, but painful. It requires a lot of hard work and very little enjoyment of the fruits of labor. This was the Japanese pattern after 1870, but up to now it has not been successfully imitated. Because of her feudal traditions, Japan was able to hold down real wages and to divert resources, which had previously gone into feudal extravagance, into investment and economic development.

Economics of development

The West Indian societies, with the possible exception of St. Kitts, have no such tradition. They are, for the most part, societies of independent-minded peasants with a fairly easygoing attitude toward life. It is not likely that they will willingly make large sacrifices for future generations.

Under these circumstances, extensive foreign investment would seem to provide the only hope for development. Foreign investment, however, has a dubious history, and it is not unreasonable to regard it with some suspicion. It may involve a degree of import of economic organization which will inhibit the development of local organization. Also, it may set up a pattern of economic depend-

ence on metropolitan centers overseas without political responsibility.

A general conclusion seems to emerge, however. If a country has a strong internal culture and an adequate political consensus it can handle a great deal of import of capital without suffering loss of its own inner integrity.

The problems of the British West Indies can be seen in clearest perspective when they are contrasted and compared with the experience of Puerto Rico. Geographically, Puerto Rico is an almost identical twin of the island of Jamaica. Its history, however, has been very different. It was Spanish until 1898, but Spain only developed it in the 19th century after she lost her mainland empire.

Puerto Rico recapitulated in the 19th century some of the history of Jamaica in the 18th. It turned to sugar growing and slavery late, however, and remained predominantly European rather than African in its racial composition. After the Spanish-American War, the United States formally annexed Puerto Rico as a dependency; this relationship brought, for the first 30 years at least, somewhat mixed blessings to the island. Since 1952, however, Puerto Rico has been a free commonwealth associated with the United States, and as such it has been able to exploit its position with great ingenuity and aplomb.

The island has free access to all the American market, and its inhabitants pay no United States taxes. It has a safety valve for its very dense and exploding population in immigration to the American mainland. In the last few years, especially, it has been able to attract American industry on quite a large scale, and it is now by far the most developed of all the Caribbean islands.

This economic development seems to have been accompanied by a decline in the desire for independence; the independence party has virtually disintegrated. The only political opposition now is the statehood party which wants Puerto Rico to become the 51st state. The case for statehood, and this is quite explicitly stated, is that, in spite of the fact that statehood would deprive Puerto Rico of a privileged position, it is

"insurance against independence."

One suspects that many groups in the British West Indies would not be averse to economic integration with Britain. Unfortunately, the British political genius seems to be for fraternal separation, rather than for federation. The British Commonwealth is a useful club to the members, but it is not much more politically than a family Christmas party. It certainly has no equivalent of "statehood" with the dubious exception of Northern Ireland.

While Puerto Rico, therefore, seems to be looking forward to a permanent share in the riches of America, the West Indies seems more like a fledgling that is being pushed out of the family nest by a solicitous but strong-minded mother, resolved that her children shall learn to fly by themselves. Which of these two solutions will make the greatest contribution to human dignity and welfare, only subsequent history will reveal.



It remains to take a glimpse of the awful example of Haiti. Here we see what more than a hundred years of independence and isolation can do for a country. Close to four million people live in Asian poverty on an eroded and ruined peninsula. Almost the only effective organization is the army. Government, in any modern sense of the word, is almost nonexistent, or is just an excuse for the making of private fortunes. What little foreign investment there has been seems to have done very little good for the people.

Haiti is a terrible example of what total independence can lead to, and the West Indies could follow the same road to ruin. Fortunately, there are signs that the West Indians realize this, and it may be, one hopes, that they will take the

necessary steps to prevent it in time.

By contrast, on the other end of the scale from total independence, we have total dependence—such as in Cayenne (French Guiana). Unlike the British, the French integrate colonies into the metropolitan country, and the three French dependencies in this area—Cayenne and the islands of Guadaloupe and Martinique—are each of them departments of metropolitan France. This is not quite like being a state within a federal system, but at least it assures these dependencies of a constant supply of support from a modern welfare state. Cayenne, in fact, lives almost wholly on French social security and government grants. It remains sunk in apathy and a hopeless dependence.

To describe the relationship between metropolitan and colonial areas, or between developed and undeveloped regions, we badly need a new word. Neither dependence nor independence is satisfactory. The old colonialism is dead, and we need a name for the "colonialism in reverse" which characterizes a number of diverse relationships today—the relationship, for instance, between Russia and Uzbekistan, or between the U.S. and Puerto Rico, or between Britain and the West Indies.

Today, on the whole, it is the colonies that are exploiting the mother country, and the flight by the metropolitan powers from colonialism, which we see at the moment, is the acknowledgment in action of a truth that hardly anybody will admit in words. Sometimes, however, the flight from colonialism is a flight from responsibility rather than a flight from exploitation.

Responsibility, alas, is a difficult art. It is difficult both for the one who undertakes it and for the one who is the object of it. It can easily degenerate into a sentimental paternalism on the part of the developed party, and an apathetic pauperism on the part of the dependent. As long as the world is divided into rich and poor regions, the problem of dependency will remain. It is solved neither by independence nor by colonialism, and we badly need a new word for a new kind of relationship which is slowly and painfully coming into being. ■

CHALLENGE NOTES

Economic Developments, Ideas and Phenomena

A MILD RECESSION

As of this writing, it seems certain that we shall be in the midst of a mild recession when John F. Kennedy assumes office in January.

The signs are unmistakable. Industrial production has been declining all year, and there are no signs that this trend will be reversed before January. Steel production showed no fall pickup and steel mills have continued to operate at slightly more than half their capacity. Unemployment remains uncomfortably high.

With the wisdom of hindsight it now seems clear that our recovery from the 1958 recession differed markedly from our recoveries from previous postwar recessions. Unlike previous recoveries, when new defense needs (1949-50) or unsatisfied consumer wants (1954) acted as stimulants, the end of the 1958 recession was not accompanied by any new demand such as could spur a substantial business recovery.

On the contrary, recovery from the last recession took place in the face of growing foreign competition at home and abroad. The dollar, which until then had been the most sought after currency in the world, in spite of fairly consistent depreciation, suddenly became less desirable. For the first time since the end of World War II, American exporters found that U.S. goods were no longer the pace and style setters in European markets—or even at home in many instances.

What this means is that the post-war readjustment period ended around 1957. Western Europe no longer relies on dollar goods to replenish scarcities. Domestically, the nation has long since adjusted itself to the present level of government demand. The demand for consumer durables seems to have leveled off and, at present, there are no new durables (such as television in the early Fifties) on the horizon.

This is the challenge confronting the Kennedy Administration. The problem is not just to take speedy monetary and fiscal action to reverse current recessionary trends. The problem is to convince American business and the American people that the economic frontier is still open and offers great rewards for those with the imagination and courage to exploit it.

THE AGE OF AUTOMATION

According to John Diebold (*see p. 20*), we are already living in year 10 of the Age of Automation. In many industries—oil refining, automobiles, chemicals, electronics, to name a few—computers already perform some of the jobs that used to be performed by workers, engineers and even management. Office procedures in banks, insurance companies and the government's Internal Revenue Service have been revolutionized. Thanks largely to the computer, public pulse taking by marketing men and voting experts has proven increasingly accurate.

And this is just the beginning. Automation promises to change the very nature of business management. Executives, Congressmen and administrators will have better information on which to base their decisions; the quality of their decisions should improve accordingly. Our hope of eliminating the wasteful business cycle may ultimately lie in the widespread application of these new techniques. Our ability to expand our rate of productivity advance certainly does.

This being so, it is surprising that so little attention has been paid to ways of increasing the use of automation techniques.

The biggest obstacle here is manpower. Unions are justifiably concerned over the impact of automation on the *immediate* supply of jobs. Often, management can win

union assent to automation only by tacitly agreeing to continue featherbedding practices elsewhere. Understandably, unions are not consoled by assurances that jobs lost now will be more than made up by new jobs created later.

The answer to this problem, it is generally agreed, is to retrain the displaced workers for new jobs. But labor-management retraining programs would be more successful if our educational system furnished workers with the basic intellectual skills that automation requires.

As in so many other fields, our ability to automate faster depends in the final analysis on our success in improving one of our most precious assets, the human mind.

ECONOMIC JOURNALISM

This is the age of specialization. Just as there are journalists who specialize in reporting on scientific developments, so there are reporters who cover the economic scene.

There is, however, one important—and we think unfortunate—difference. Science, it is generally agreed, is so complex that not even a technically educated journalist can hope to stay on top of the entire field. Therefore, no effort is made to specialize further. There are no physics or chemistry reporters, for example.

Economic journalism, it is generally believed, is not nearly so complex. Therefore, any reasonably intelligent reporter can specialize. There are labor reporters, business reporters, foreign trade reporters, and so on.

We think this is unfortunate. The economy is a whole; it is not necessarily the sum of its parts. We need general *economic* reporting to make intelligent decisions.

DURABLE GOODS?

At a recent conference of demographers, a prominent economist had this to say about the demand for children: "Children are viewed as a durable good, primarily a consumer's durable, which yields income, primarily psychic income, to parents." Of course, the child may also derive considerable "psychic income" from just being alive—even in the unlikely event that he is unfortunate enough to have parents who regard him as a durable good.

—M. K.

JOHN DIEBOLD

*Head, John Diebold and Associates,
Management Consultants on Automation*



Life Under Automation

Q Mr. Diebold, ever since the first computer was installed, people have talked of automation as the harbinger of a "second Industrial Revolution." Do you agree with the implication that automation is bringing about economic and social changes as important as those which replaced human energy with machine energy some 150 years ago?

A Yes, I do. It is important to remember that the significance of the first Industrial Revolution in the late 18th century involved much more than the invention of such machines as the cotton gin and the spinning jenny. Industrialization provided mankind with an entirely new way of life and it brought about altogether new attitudes toward work, property, wealth, and so on.

Q What, in your opinion, was so revolutionary about the first Industrial Revolution?

A First, it took people out of the fields and brought them into the cities. More important, it concentrated work in factories and, to a considerable extent, let the machine dictate the rhythm and pace of production. The factory, in turn, made possible mass production. As a result of mass production we saw the emergence, for the first time in history, of societies where luxury was not confined to a few. Finally, industrialization encouraged psychological attitudes—in particular, the optimistic belief that personal initiative can eradicate poverty and disease—which are still unknown in those parts of the world which are not yet industrialized.

Q How is automation changing all this?

A To be perfectly honest, I do not know—and neither does anyone else. After all, automation is a postwar development, and widespread applications really began only during the Fifties. So far we have had the most experience with computers. Excluding punch card calculators, there are today somewhere around 5,000 computers. But in other areas automation techniques are still in their infancy. One thing, however, I do know: the changes brought about by automation are going to be quite different from those brought about by the first Industrial Revolution. We are not merely going to get more of the same kind of changes.

Q Well, before we go into the social and economic consequences of automation, we shall obviously have to discuss the technology. Exactly what is automation? Is it more than just an "automatic factory"?

A Most people, when they think of automation, think of what we call "Detroit automation"—the automated mass-production factory. In fact, this kind of automation is probably going to be the least important economically or socially.

Q Why?

A The automobile factory requires very long product runs, but there are very few places in the economy where this is the case. Eighty-five per cent of the hard goods in this country are produced in relatively small groups of 25 identical units or less.

Q How can automation help in the production of such small batches?

A The important thing about automation is that it is a technique for handling and controlling information. This ability is already being applied in factory production, notably in the production of numerically controlled machine tools. We already have some 800 numerically controlled machine tools in this country, and it is estimated that by 1965 one-half of all machine tool shipments will be numerically controlled.

Q How will this contribute to economic efficiency?

A For one thing, it will enable the economy in general and the small producer in particular to derive the full benefits of mass production for short product runs. It will enable producers to cut down on shipping and inventory costs.

Q In what way?

A Instead of having to ship spare parts, it will be possible to ship tapes and have the parts produced in a numerically controlled installation nearby. The ability to produce standardized parts in smaller batches should enable manufacturers to cut inventory substantially. And, of course, it should permit a much more rapid (and less costly) industrial mobilization in case of a national emergency.

Q *As well as greater standardization of produce variation.*

A That is right. Numerical control makes it possible to enjoy the advantages of automatic production in small units.

Q *What are some other important recent developments in the technology of automation?*

A At present, potentially the most dramatic developments are occurring in the process industries, although the pace of progress in this field is still much slower than in the field of numerical controls or computers. The reason for this is that applications in the process industries are still in their infancy—about where computers were in 1950. The first test installations are just being made.

Q *How do you define process industries?*

A Process industries require the control of a continuous flow of liquids. Chemicals and petroleum are two important examples of process industries.

Q *What will be the economic implications of automation in the process industries?*

A The economic advantages of automation in this field are tremendous. I do not think that the main advantage will be in terms of labor savings. Oil refineries, for example, are already very highly mechanized and operate with a minimum of personnel. The real change is going to be a vast increase in the productivity of capital investment. Numerical control will make it possible to get much more from your plant.

Q *How?*

A At present, process plants run at optimum efficiency for only a small part of each day. There are too many variables and too much room for human error. Hundreds of instruments have to be read and related to one another. Constant changes in the process are required on the basis of these readings.

Closer to optimum production

Q *How would automation change this?*

A When you have a computer reading all of the instruments and making continuous calculations and output changes, you will come much closer to optimum production in the plant. And this means that you are going to get much more out of your equipment than is presently the case.

Q *If what you say is true, isn't this going to pose a serious problem for an economy like ours which is not geared to sudden and dramatic changes in supply? Are we in danger of building more productive capacity into our economy than the market will be willing to absorb?*

A No, I do not think so. In the first place, these changes, while revolutionary, are not going to be sudden. Certainly, there have been no sudden changes up to now. Productivity figures show no substantial increase during the last decade; if anything, our record

here has been rather disappointing. I think this points up the fallacy of prophecies of economic disruption as a consequence of automation.

Q *But these are general figures. What about those industries (and, more specifically, those companies) where automation has been applied? How have they adjusted?*

A Well, I don't think that anyone really knows what the impact of automation has been in those *specific* instances where it has been applied.

Q *Why not?*

A The reason is twofold. In the first place, there have been very few detailed case studies of what happens when a plant automates. In the second place, it is very difficult to distinguish between automation and other kinds of change. In most instances where automation has caused distress there have been other reasons besides the new technology. For example, you had important changes in the market for automobiles just at the time when Detroit was automating.

Scientists and the long-run view

Q *This brings up an interesting question. How do you account for the fact that, by and large, the scientists and engineers who have invented automation techniques regard the social consequences of their inventions in a much more dramatic light than businessmen and their advisers—such as yourself?*

A Well, scientists are very properly taking a long-run view of the situation. They see the implications of new techniques long before these techniques have been applied. Businessmen like myself, on the other hand, tend to see the problems involved in applying these new techniques to concrete business situations. In the long run, the scientists will no doubt be proven right. But these changes will not be as disruptive as they think. Certainly, some of the predictions of mass unemployment that were made in the early Fifties have not materialized. Of the 5,000 computers that have so far been installed, it is difficult to find even one case of labor displacement, although many people have tried.

Q *Isn't it true that there has been no increase in manufacturing employment since the Korean war?*

A That is true if you make comparisons with the temporary employment peak of the Korean war. But if you take the decade of the Fifties as a whole, you will find that there has been an 11 per cent increase in the number of people employed in manufacturing. Now, I realize that these figures rather overstate the situation since the decade started during the period of recession. And it is undoubtedly true that there has been a *relative* decline in manufacturing employment as more and more people move into the service industries. But the fact remains that during the first decade of automation, there has been no *absolute* decline in manufacturing employment.

Q *If you broke down these figures, wouldn't you find*

that employment has declined in those industries where automation has been introduced on a substantial scale?

A Not at all. During the last decade, employment in the chemical industry has risen 24 per cent, in metal and metals production 10 per cent, and in electrical machinery (a fairly automated field) employment has risen by 46 per cent.

Q *But this isn't true of mining or automobiles, is it?*

A It isn't true of mining where there has been an absolute decline in employment. But this is largely due to increased mechanization, not to automation. I do not have the figures for automobiles. But even if employment has declined in this area, it is very difficult to tell to what extent this decline is due to automation and to what extent it is due to other factors, such as a changing of demand for autos.

Capacity to do entirely new things

Q *But you do foresee a relative decline in manufacturing employment? Do you think that employment opportunities in the service sector of the economy will absorb the increased number of people seeking jobs in this area?*

A I think that the most important effect of automation will not be its ability to mechanize further existing production processes, but its capacity to do entirely new things. Let me give you a few examples. In the field of information retrieval and library research, computers can be used to abstract, scan and translate documents on a scale and at a speed that could not possibly be attained by human librarians. Such scanning machines are already being used by the oil companies in reading credit card slips.

Q *You mean that automation will also tend to displace the white-collar worker?*

A I am not saying that. What I am saying is that automation would make it possible for us to do things which aren't being done, or not being done well. The Russian journals pile up in the basement of the Library of Congress, and those few that do get translated are done only because there are special military appropriations set aside to do the job.

Q *What other services will automation make possible?*

A The possibilities are virtually limitless. Take air traffic control which is something that we do very badly today. Now, a computer network could give us a superior communication system for air traffic control which would not only increase employment but contribute materially to air safety. Then there is long-range weather forecasting which is still in its infancy. An effective long-range weather forecasting system will require vast amounts of computing capacity. It will also require an automatic communication system and a system of satellites to collect the necessary data.

Q *How about our space programs?*

A Our entire space development program will require tremendous quantities of computing capacity and in-

strumentation. There are other areas in which automation can make important contributions. Think of the lives that can be saved by mobilizing computers to compile and analyze medical statistics. Such statistics are notoriously unreliable at present, and most major medical research efforts require fresh statistical investigations. Computers are ideally suited for the collection and analysis of such data.

Q *But are the skills which automation requires the same as the skills which automation displaces? Aren't there going to be inevitable problems of adjusting labor supply and demand?*

A I don't think that is necessarily so. This does not mean that there will be no problems or that we can afford to neglect these problems. On the other hand, the evidence shows that people have a lot more ability to learn new skills than we sometimes give them credit for. Let me give you an example. When textile companies moved out of such towns as Utica, New York, many electronics companies moved in. Contrary to the pessimistic predictions of some, a great number of workers who had been skilled textile machinists a year or two before were able to transfer into skilled positions in the electronics field. The Russians are already talking of the need for training workers in two skills in order to give them greater transferability.

Education is important

Q *How can we improve this transferability of our workers?*

A Retraining is important, but basic training (or education) is even more important. I think that our schools overemphasize specific skills at the expense of basic capabilities. Special skills become obsolete very quickly; general capabilities, on the other hand, are the necessary foundation for acquiring new special skills.

Q *What reforms in our educational system will the new automation technology require?*

A Virtually every analysis of our educational system that has been made since the end of World War II has stressed the need for greater concentration in basic mathematics and science. This is unquestionably necessary, but I think that automation also requires much better training in the nontechnical side of business administration.

Q *In what way?*

A In the past, the man who succeeded in business was usually the man who made the right decision on the basis of very little data. There is no reason to believe that this kind of individual will necessarily make the best business administrator in a situation where he can get a great mass of detailed analysis at the press of a button. I think that very subtle changes are occurring in the kind of administrator that is needed. Unfortunately, these changes are being given very little attention either by businessmen or by the administrators of business school curricula.

Q *Well, this situation works both ways. How is automation enabling us to give our youth a better education?*

A I think that there have been very important developments in recent years in the field of teaching machines. Certainly, the information theory on which our automation technology is based has contributed much to the construction of such machines. Today it is possible, by use of computers, to simulate certain business and social situations and thus get the student as close to the reality as it is possible to get in theory. Business games, for example, are very good training techniques for young executives eager to put theory into practice—without putting a firm into bankruptcy. Such games are invaluable training aids and they depend on computers.

Better tools for allocating resources

Q *While we are on this subject of new decision-making techniques, do you feel that the emergence of game theory, linear programming, and so on, will improve the efficiency of the nation's resource allocation?*

A Very definitely. Such techniques are already being used very effectively in the field of distribution and should contribute materially to cutting down excessive distribution costs. In fact, such techniques provide our private enterprise system with much better tools for doing a more rational job of resource allocation.

Q *How about decision making in the public arena? In our kind of society, the Executive departments which administer the public's money are responsible to the people's representatives in Congress, and these are not specialists in game theory or linear programming. How can the new computer technology help them to do a better job?*

A First of all, by giving them better data on which to base their decisions. The average Congressman is flooded with specialized reports on every conceivable subject, and no matter how conscientious he may be, it is well-nigh impossible for him to keep abreast. At present, we're doing nothing to improve this situation, although computers could provide our legislators with much better digests and with refined reports that give them only the essentials needed for an intelligent decision. Computers are already doing this in some business situations, and government agencies are also using them for administrative work. There is no reason why Congressmen should not receive the same kind of assistance.

Q *What are some political questions on which computer information might help Congressmen to cast a more informed vote?*

A At present, it is very hard for a Congressman to know what the consequences of alternative courses of action will be. Computers can be invaluable in testing the consequences of alternative policies. Take the question of the budget. Say you want to increase expenditures for certain programs. Computers can help you estimate the impact of such increases on the balance of the budget more rapidly and more accurately than conventional accounting techniques.

Q *These innovations are no doubt important, but the area where most Americans will feel the impact of automation most concretely is in their everyday working lives. How is automation going to change the very nature of work?*

A There have been a lot of flip answers to this question, but so far nobody has really studied the subject. Many people's ideas about life under automation resemble Charlie Chaplin's film, *Modern Times*, in which human workers are pictured as very dispensable appendages of the machine, rather than the reality. In fact, automation tends to make work more, not less, interesting. The one thing that most people who work with computing machines will tell you is how very much interested they are in their jobs. I doubt whether most production line workers would tell you the same thing.

Q *In what way does automation make work more interesting?*

A It gives the individual a much wider view of what is going on. He is able to see what his role is in the over-all production process. I think that this is particularly true of factory automation. In the old factory too much of the work was tedious and monotonous, and most workers were doing things such as punching holes, tightening bolts, and so on, which seemed to have little connection with the final product. Automation has changed all this.

Extensive training no longer required

Q *But isn't it rather hypothetical to suppose that the man who was punching holes and tightening bolts under the old dispensation will now man the computers in automated factories?*

A It is not nearly as hypothetical as some people think. It is true that during the early 1950s most of the personnel who worked on computers were mathematicians. But today most of this work has already been so carefully programed that extensive technical training is no longer required.

Q *Is it your opinion that as automation develops it will require rather less technical background?*

A Yes, I think that is true. The person who operates a computer today no longer has to pioneer in finding out exactly what the machines can do. In this technical sense the handling of computers is becoming somewhat more routine. But while computers may require relatively less technical background, they are going to call for more and more general intelligence and ingenuity.

Q *What you are saying is that operating a computer isn't just a matter of watching a panel of lights go on and off?*

A That is correct. In the first place, there is the problem of interpreting what comes out of a computer. Then there is the problem of reacting correctly to the information transmitted by the computer. Both of

these problems are interesting and make considerable demands on the intelligence and ingenuity of the worker who operates the machines.

Thin thread of "ifs"

Q *In other words, you don't agree with those scientists who predict that, as a result of automation, more and more of the basic decision making in industry will be made by a small elite of scientists and engineers?*

A Well, we have been increasingly dependent on technology for more than 200 years, and it is true that a highly specialized society like ours always hangs on a very thin thread of potentially calamitous "ifs." If, for example, our oil supply suddenly dried up, an awful lot of expensive machinery would grind to a halt. Similarly, a nuclear accident could have terrible consequences. Our dependence on scientists and engineers is merely another of these thin threads. Certainly, I do not see any present indication that a scientific elite is acquiring the kind of political power which would enable it to obtain any kind of controlling influence in our society.

Q *So far, we have talked about the impact of automation on work. But isn't one of the consequences of automation going to be that it will enable more of us to work less? What are we going to do with this spare time?*

A I believe that this is the greatest long-run problem that our society faces. But it is a long-run problem. During the next decade our main challenge will be to increase our productivity, expand our rate of economic growth, and present an image of economic strength and vigor to the rest of the world. I don't think that during this crucial decade of competitive coexistence with the Soviet Union it will be possible for us to make radical changes in the workweek and still stay ahead economically.

Q *But in the long run, we are going to have a leisure problem?*

A Yes. The fact that leisure is a long-run problem should not prevent us from doing something about it right now. Long-run problems require long-run solutions. Learning how to use leisure time creatively must begin very early in the home and in the schools. The youngsters now in school are, I am convinced, going to be living in a leisure society—that is, a society where many more of their waking hours will be spent off the job than on it. As far as I know, society is doing very little to save these future consumers of leisure from chronic boredom.

Q *But can one really "plan" for leisure?*

A Of course, the idea is not to indoctrinate youngsters specific ways of using leisure time. That sort of thing is sterile. But I do think that our educational system can stimulate lifelong interests which will not only enrich life, but incidentally also contribute to the economic growth and social stability of this country.

Q *Let us return to the short-run problem, which, you*

say, is economic growth. You evidently believe that automation can make an important contribution to stable economic growth.

A That is right. What we should really worry about are not the consequences of applying automation but of not applying automation quickly enough. Our rate of productivity advance during the last decade has not been sensational. We have no monopoly over automation technology. Other countries, notably the Soviet Union, are automating very rapidly. If we lag behind, we could very well lose the productivity race.

Q *In this connection, how far advanced is Soviet automation technology?*

A Well, you have to distinguish between military and industrial developments. Military applications of automation have, of course, received priority attention. And Soviet achievements in the nuclear and missile fields indicate that they must have a very fine computing capacity. Indeed, the most significant aspect of Soviet missile developments has been their control technology. The accuracy of these missiles and satellites indicates a quite advanced computer technology.

Sophisticated understanding of techniques

Q *How are the Soviets doing in the nonmilitary fields?*

A There is no question but that the Soviet Union is considerably behind us in the commercial application of computers—for example, in the field of banking and public administration. But they are very advanced in the theory. What is more, the importance of automation technology has received formal recognition in Communist party resolutions. Automation is an important element in their over-all economic planning. There is widespread recognition that the Soviet Union's plans to surpass us depend upon their ability to make full use of these new techniques. Special committees high up in the government hierarchy have been created whose sole function it is to encourage research in this field and come up with new applications. Although there is relatively little computer hardware around—at least, in the business field—there is a very sophisticated understanding of programing techniques.

Q *How about Western Europe? How far have they progressed?*

A Western Europe is about three to four years behind us in this field. Heavy orders for computing equipment began to be placed around two years ago while we began really heavy investment in this field about five years ago. Right now, the computer industry is booming in Europe—especially in England and Germany. My own European organization is expanding three times as fast as my domestic organization. American manufacturers of computers are expanding their export markets at a rapid pace. At the same time, European computer manufacturers are springing up all over the Continent.

Q *Do you think that we have been applying automation fast enough?*

A In terms of our ability to use automation, no. The real problem in automation is to find new uses for the instrumentation that we do have. I feel that the educational background of our businessmen-administrators works against our doing this. Business training in this country tends to be very pragmatic, with a minimum of emphasis on theory. That is why European businessmen who are the product of a more theoretical kind of education tend to be rather more imaginative in their use of automation devices.

Q *Why is theory so important?*

A In order to understand what automation can do for your office or your factory, it is important to have at least some idea of what information theory and the theory of servomechanisms are all about. My firm has done a lot of training of European business executives in the use of computers, and we have found a much higher level of interest in the theoretical consequences of development in this field than is true in this country. If business in this country is to make optimum use of the latest innovations in this field, it, too, will have to pay increasing attention to the theory of automation.

Technology moves rapidly

Q *Mr. Diebold, what is the average lag between the time when an investment is made in new automation equipment and the time this investment begins to pay off?*

A This is largely controlled by the rules set by individual companies. Most companies do not undertake projects that require very long payout periods. Part of the reason for this, of course, is that technology moves extremely rapidly and no company wants to be stuck with obsolete equipment. At present, most investments in the automation area have a payoff period of less than five years. This does not seem to be much longer than the average payout period in other areas. Some railroad equipment, for example, has a tryout period for as long as 40 years.

Q *If business firms follow your advice and automate more rapidly than they have up to now, won't this encourage a greater degree of business centralization?*

A Not necessarily. Automation can also make a decen-

tralized private enterprise system work better. Certainly, it can make your decentralized units more responsive to short-run, regional changes. Take the electronics industry, which has seen a great deal of automation. Now, it is true that the electronics plants are getting larger and larger. But at the same time you have the continuous emergence of smaller units.

Q *How could automation help the small businessman?*

A Mainly through better information. Take the dress industry, which is still largely dominated by small manufacturers. Automation should give the little manufacturer a much clearer idea of what is being purchased in other parts of the country. It could thus eliminate one of the key sources of instability in the garment industry. In the final analysis, what is important in this area is not the size of the company's assets but its technical capability—something that does not show up on a balance sheet.

Q *In other words, you do not see automation encouraging a trend toward big business?*

A It may do that. IBM and AT&T are getting larger. But, important though these companies may be, they do not give you the whole story. Remember that you're talking to a small businessman—and a specialist in automation at that. I can assure you that we are doing very well indeed.

Q *If automation can help make management decisions more responsive to changing business conditions, couldn't it also help government devise more flexible business cycle policies?*

A Of course. For one thing, automation makes possible a vast improvement in our economic statistics. It could make more accurate surveys of consumer and investment decisions. In fact, automation is already making marked contributions in the entire field of market research. By cutting down the time lag between economic events and accurate statistics about these events, automation can make business cycle policy much more effective. Our ability to maintain a high rate of stable growth thus depends, to a considerable extent, on our ability to make full use of the second Industrial Revolution which automation has brought about.

Q *Thank you, Mr. Diebold.* ■



THE NAVAHO EXPERIENCE

by **FRANK A. TINKER**

■ JOHNNY BEGAY is an American Indian belonging to the Navaho tribe. A Navaho, in giving his name to early administrators, usually followed it with the word, "Begay," which means "son of" in the Navaho patois. Consequently, many of the 85,000 members of the Navaho tribe have automatically become Begays on the white administrators' rolls. The "Johnny," of course, was adopted mostly because Anglo tongues could not wrap themselves around the unwritten, glottal-stopped, unpronounceable Athabascan spoken in the hogan.

Thus, in order to understand Johnny, his Anglo neighbors (anyone in the Southwest who is neither Indian, Negro, Oriental nor Spanish-American is an "Anglo") have had to transform him into a figure which is acceptable to their own ways of thinking and doing.

What the Anglos do, in effect, is to view the Navaho through glasses tinted by their own cultural environment. In this way they get a rainbow glimpse of what goes on in his world, but they have difficulty seeing its true color. As a result, in the past, eager Anglos have managed to mismanage much of the tribe's business.

The material welfare of the Indian has been assumed to be our moral and political responsibility. Consequently, we must try to gain a clear, unsullied view of what we have done, are doing, and should do on the reservation—or, for that matter, for any primitive people.

Obviously, we should start by getting to know the person with whom we are dealing. Unfortunately, this is the hardest part of the whole business. Most people who have become interested in Indian affairs find it difficult to view the situation objectively; their vision is blurred by sentiment and misconceptions.

The difficulties involved in understanding the Navaho are well illustrated in the life of Johnny Begay. This representative young man grew up far from any school on the nearly roadless 24,000 square miles of his desert home. He was still illiterate when he entered his teens. At this point he was "discovered" by the white administrators and sent to one of several schools set up specifically for the thousands of such Indian youngsters. Johnny was given the best (most) education possible under the handicaps imposed by his culture and taught the remunerative trade of an auto mechanic.

The next step was to find Johnny a job. Through the government service he was placed in a shop. The foreman later reported being thoroughly pleased with Johnny's industry, skill and patience. But when it came time for an advancement, this odd Navaho showed absolutely no interest; he preferred to remain where he was, doing the job he knew. The pay was not exceptional, but it was adequate for his needs, and with this he was completely, immovably satisfied. The idea of "getting ahead" or becoming a boss over others, far from being an incentive, was actually repugnant to Johnny.

So he remained at the lower level of the shop and, inevitably, when a cutback was forced upon the business, he was one of the first to be laid off. The others who were likewise displaced found new jobs for themselves in short order. Johnny packed his tools and went back to the reservation, where he sat until his money ran out.

Lazy? Certainly not, according to those for whom he worked. Shy? A better word is "reserved," say his friends. Indifferent then? Well, yes—and here is where a "yes" confounds, embarrasses and sometimes

defeats the Indian's warmest supporters, even the leaders of the tribes themselves.

But the frank admission that Johnny is indifferent, at least to a significant degree, must be made. Any attempt to help him will end in certain frustration if this fact is not recognized. And today, as Western peoples extend the same help to others who, like the Begays, are being forced out of their native cultures, we must realistically accept the indifference of many of these people as well as the problems this indifference spawns.

Apologists for the Navaho (who neither needs nor wants an apologist) point out that in the past we have more frequently suppressed rather than helped "The People," as some Southwestern tribes call themselves. Some of our early efforts to deal with the Navaho problem certainly illustrate the truth of this.

The U.S. government in 1864 assigned Col. Christopher (Kit) Carson to round up the unorganized, feuding Navaho families in an effort to stop their sporadic raids and their warfare against the Mexicans. After four years of imprisonment at Fort Sumner, New Mexico, these pitiful people were finally allowed to return to their desert homes—largely because they were rapidly dying out under the white man's administration.

Given some basic protection from nature and landsharks, these tribesmen, approximately 10,000 in number, were once again free to roam the barren plateaus of New Mexico and Arizona. They were also given some 35,000 sheep and goats as a means of earning a livelihood. But by 1930 their numbers had increased to 60,000 and their livestock had inundated the range; over one million head grazed the arid rockland. The limited resources of the reservation were wholly inadequate to support such numbers.

Though the Navahos were not complaining of neglect, they most certainly would have starved had not the white man intervened once again in their affairs. Yet when one of the most "sympathetic" administrators of Indian affairs decreed that half of the animals on the reservation—many of them unused horses kept

merely as "status symbols"—would have to be eliminated in order to avert disaster, the Navahos almost unanimously begged for disaster.

Unswayed, John Collier shot the livestock and did many other things which, by all white logic, helped the tribe to raise its status; he remains possibly the most disliked "white father" of the lot, which is saying a great deal.

In the years which immediately followed World War II, there was much happy talk about the great change which had come over the Navahos—especially the Navaho servicemen. These men, pointed out the enthusiasts, had at least had the opportunity to mingle with the white man and observe his ways—as if the same opportunity had not been available and even urged upon the tribe for years.

Unaltered ways

The fact is that when the shooting ceased and the war industries shifted to other products, the Navahos returned to the reservation. Two years later, while the rest of the country was enjoying an unequalled boom, it was discovered that the tribe was again starving. During the previous crisis among the Navahos, the entire U.S. had been involved in a deep depression; this time, however, the reservation existed as an island of misery in a sea of prosperity.

The implication was plain; the Navahos apparently could have shared in the plenty around them if they had been willing and able to leave their homes or alter their way of living. The blame cannot properly be placed on the hostility and discrimination of the Anglo world. As a matter of record, only two of 181 "relocated" Navahos recently returning to the reservation from jobs obtained for them in far cities claimed that discrimination played any part in their return. Those persons who sincerely wish the best for the Navaho only handicap him by overemphasizing the difficulties of discrimination. No real service can be given the Navahos as long as the facts are not faced squarely.

Recognizing the need for more realistic help than mere carping against the neighbors of the Navaho, the federal government, after consid-

erable survey work, approved the Krug Report and its proposals, which became Public Law 474 under the 81st Congress in 1950. This Long-Range Rehabilitation Plan called for \$88 million to be allotted to the Navahos for a 10-year scheme of improvements. (This was over and above the regular budget for the Bureau of Indian Affairs and the money spent by the tribe itself for similar purposes.) These funds are being used to develop the reservation. But even if full use is made of reservation resources, a maximum of *one-half of the tribe* would thereby be supported.

The federal allotment under Public Law 474 amounted to \$1,000 for every person on the reservation. (A gift of comparable magnitude to such a small African nation as the Belgian Congo would come to \$14 billion.) Most of this money has been spent wisely, but the tenacious peculiarities of the Navaho culture have prevented any sweeping economic reforms from taking place on the reservation. In fact, the present situation is far from what many persons involved in the plan envisioned; nevertheless, it provides a useful guide for the future.

First of all, an immediate effort was made to get the youth of the



tribe into schools. A 1948 survey connected with the Krug Report revealed that only about 10,000 of the 25,000 children of school age were enrolled in state-administered public schools, special Indian schools operated by the federal government or mission classes. There was no compulsory education and attendance would have been impossible to enforce short of totalitarian methods.

(Now the tribe itself has established a compulsory attendance regulation and does its best to enforce it.)

Thus \$25 million was earmarked for the expansion of the education effort and, acceding to the desires of the tribe, the emphasis was placed on building and establishing schools *within* the reservation. Later the program included the building of dormitories in cities nearby so the children could attend the public schools provided by the state. Integration into the public school system is the goal of the present administration and has the support of tribal leaders—i.e., those who are closest to the Anglo way of thinking.

Need for special schools

However, education experts, missionaries, traders and other impartial observers who are familiar with the situation say that there will be a continuing need for special Indian schools. There is a particular need for schools designed to bring the large number of neglected youngsters "up to grade"—children whose homes are very remote or whose parents are still unconvinced of the benefit of education.

There are several such special schools throughout the Southwest; the Intermountain School at Brigham City, Utah, and the school at Chemawa, Oregon, are outstanding examples. An advantage of these schools is that they remove the student from the family association, from which stems much of the Indian's resistance to change. The Indian schools also provide job placement services; work is found for almost all the graduates. Recruiters from the Bureau of Indian Affairs tour the back country in jeeps each summer, trying to persuade both parents and students of the value of the education provided by these schools.

As a result of all these efforts and a variety of other tactics—even trailers were used to take the school to some remote sections of the reservation—the Bureau and Tribal Council have managed to enroll only one of every three Navaho children in school.

And what has been the success of this schooling in terms of changes in culture which aid the tribe's economic chances? In fairness it must be said that insufficient time has

elapsed to judge the effects thoroughly. However, Navaho college graduates still pay medicine men to hold "sings" in order to cure them of various ailments which Anglo medicine cannot. Teen-age students attending the off-reservation schools still confound teachers by refusing to compete or to answer direct questions, and by sloughing off much of the year's work during their summer vacation in the hogan.

Apparently the *amount* of schooling has little to do with the Indian's success in off-reservation life. Some 60 per cent of those who have had a full 12 years of education "return to the blanket." Those who have had no schooling—or very little schooling—do just as well, perhaps even a little better, in sticking with off-reservation jobs.

The *kind* of schooling, however, may mean a great deal more. Of the smaller number of *public school* graduates who left the reservation, over 90 per cent stayed away—at least for significant periods. The

little high, since some of these returnees may go out again and again. At any rate they do not seem to adjust to permanent employment outside the reservation any better for having attended off-reservation schools. Johnny Begay, apparently, was no exception.

Nevertheless, half the battle had been won when Johnny was at least made employable. The question is, *where* will he be employed? It has already been mentioned that only half the tribe can live from the resources of the reservation alone. Stockraising, which was the principal occupation before the debacle of the 1930s, is now limited to about 550,000 "sheep units" grazing on 18 designated areas managed by specialists. It forms no more than 15 per cent of the income of the tribe.

Various efforts have been made to enlarge the agricultural opportunities on the desert and in nearby areas. Again, much was made of the transfer of a number of families to an irrigation project opened in 1945

Another much larger area of land will be opened for allotment when the Navaho Dam across the San Juan River is finished. A budget control system managed by tribal accountants may help the individual farmers who settle on this reclaimed land. This is very significant, since it actually represents management by a central government of the individual's production efforts. Training in irrigation farming techniques is now being given as well, but whether the tribesmen will master the baffling subject of money and its use remains to be seen.

Navahos as businessmen

However, even though \$10 million is being spent for soil conservation and another \$20 million to build 636 miles of road through the reservation, the salvation of the tribe from an outright dole obviously depends upon a certain industrialization, either by employment of its members elsewhere or creation of local industries.

The Krug Report contained a special recommendation toward the latter alternative, and \$1 million was allotted for this purpose. In addition, during the interim, tribal income derived from oil, gas, uranium and other mining has reached a considerable figure. The Tribal Council itself has contributed generously to the creation of various home-grown industries.

And to what effect? Trading posts around the reservation were purchased, operated by Navahos—and were sold back to white traders after a few years. "Pilot projects" in clay products, native materials, leather products, wool textiles, etc., were organized and then had to be abandoned as profitless. A cement products plant was leased away to private interests when it did not pay. Several private firms, which were encouraged to set up plants nearby and employ Navaho labor, moved out again after a few years; none arrived to take their places.

These attempts at individual enterprise by the Navaho were unsuccessful largely because three essentials were lacking: a steady market, a knowledge of business, and the kind of initiative stemming from a desire for attainment, Anglo style.



numbers have been too few to provide statistically sound conclusions, but they do offer clues.

On the other hand, although no record is kept of the number of students from off-reservation Indian schools who later leave their "outside" jobs and return to a more friendly culture, estimates by members of the Bureau of Indian Affairs agree that it is about three-fourths of all such graduates. This may be a

along the Colorado River. But by 1955 at least 55 per cent of the families had returned to their home ranges, however poor. The inability of the tribesmen to adapt to irrigation farming was given as the reason. Another more valid explanation was that the idea of saving a large income received during a brief period for expenditures during the coming year was overwhelmingly foreign to Navaho customs.

The first has caused so many bankruptcies in industries located far from population centers that it might have been foreseen.

The lack of business know-how has frustrated tribal leaders in other ways. When a loan fund was established several years ago, for example, needy tribesmen happily availed themselves of the money, but saw little urgency or reason for returning it. After a few disastrous years the borrowing had to be halted until teeth were installed in the collection machinery.

The most important consideration, however, is the lack of a goal sufficiently attractive to drive the Navaho into competitive business. Here again one runs into the impasse which has frustrated so many teachers; the Indian simply refuses to reckon wants, time or effort along "logical" lines. Thus the cogency of an "education first-economics later" approach becomes clear.

For the fact is that the white man's goal—the desire for social advancement through wealth—does not have any meaning for those primitive cultures wherein work in the form of regular employment is strange and meaningless.

Inculcating changed values

Thus the unenviable task which faces the teachers who undertake the formidable job of Indian education is to make their students dissatisfied and hungry for things which may not in themselves be worthy. Only in this way can teachers break through the inertia of contentment which prevents their students from making more than an absolute minimum effort. And this same formidable, almost immoral job apparently awaits anyone determined to start other undeveloped peoples toward a "better" life by means of the free enterprise system. Education of a deeper character becomes more and more painfully necessary.

The supposedly beneficent gift of sanitation and medicine has perhaps been more cruelly effective than educational efforts in forcing the Indian to adapt to change. Less than a century ago, as we have seen, the Navaho were about 10,000 strong, and so disinclined they scarcely considered themselves a single tribe.



The average life expectancy was apparently quite short. But the efforts of missions, charitable organizations and the government to bring at least rudimentary instructions on health to the tribe have served to increase the number of Navahos eightfold.

We must bear in mind the fact that the Navahos have been *surrounded* by an industrial society which has furnished an example to them and which has been able to absorb any of them who could (or would) make the change required. Until literally forced by want and "encouraged" by government help, however, the Navahos made no attempt to leave their cloister. Now, with the population so far in excess of the desert's capability, the tribe has no real choice. Thus, how much of their present transition is due to education and how much to a reluctance to starve is debatable.

People of good will and poor insight who have insisted that the Indian is making his "great leap forward" cite off-reservation employment figures as proof of this contention. But they ignore the fact that much of the off-reservation work has been obtained for the Navaho by a frank system of inducement. The sometimes disastrous results of enticing him, unprepared, into the factories of Chicago, or the slums of Los Angeles have been fully reported elsewhere; here we are concerned with those who apparently have survived the transition.

The first admission to be made is that little cultural change has occurred aside from the partial accept-

ance of a wage rather than bartered goods. Few Navahos have actually moved permanently from the desert. In most cases only the family breadwinner leaves the reservation—usually to return after a temporary stay "abroad."

The superintendent of a Navaho mission not long ago described to me the new economic routine of the tribesman thus: "a few months outside, then back to Gallup, New Mexico, where he buys provisions for the family and goes on a magnificent toot. Then back to the hogan and the trading post, to reclaim his jewelry (almost every Navaho has a family collection of turquoise and silver), buy his flour and salt and canned peaches, and take up the old ways. Immediately, relatives move in to share his good fortune and in another few months the jewelry has been pawned again, piece by piece, until he must go back to the other world to start the process over again."

Perhaps this is a temporary phase. It may be that eventually Navaho families will sell their sheep and go with their man abroad. If so, it is doubtful that they will do so willingly, or happily embrace the wonders of Anglo civilization, which remain as uninspiring as ever to them.

Tribal businesses

Another alternative, most intriguing in its implications, is that more and more of the tribe be employed by their own government. For, although the enterprises based upon individual initiative have almost completely expired, some of those undertaken by the tribe as a unit have prospered. Among these are several motels, a coal mine, a housing project and, most impressive to this writer, the tribal sawmill.

This latter industry, financed entirely from Navaho funds, has repaid a government loan promptly, showed a genuine profit almost since its first operation, and now has warranted an expansion which will include the erection of one of the most modern mills in the country—at a cost of \$11 million. Around this mill, at Navaho, New Mexico, will be located a model community which eventually may house 800 workers and their families—nearly one in 20 of the tribe.

The possibilities are obvious. Only a few such enterprises would be sufficient to sustain a genuine tribal economy—granted the continuance of the Anglo markets around them. Yet these enterprises—instigated, encouraged and aided by the federal government—would be entirely owned by the tribe, a unique racial corporation. This would be a socialistic setup, since the corporation would not pay dividends to individuals. Rather, its officers (the tribal government) would provide services, such as housing. The tribal income from mining and oil leases has, in fact, been spent in this manner rather than parceled out to tribe members.

However much an Anglo observer may cherish the practice of self-determination and capitalism for himself, he must admit the wisdom and practicality of at least this much welfare-statism on the reservation. Only through this system has the tribe been able to purchase services and institute over-all improvements

in their living environment. Under a capitalist system these funds would have been dissipated in temporary satisfactions such as more jewelry, more sitting at home and more alcohol. This is not a condemnation of capitalism; it is a recitation of facts as provided by tribal sources.

Of course, there is insufficient evidence here upon which to base a completely developed and defensible argument, but available evidence points to a unique paradox. The United States, a nation which has carried the concept of free enterprise further than any country on earth, has experienced a century of failure in its attempt to persuade its largest cohesive group of primitive citizens, either by example or education, to change its ways.

But by accidentally instilling a national pride in their people, a small group of Navaho leaders have been able to succeed on a modest scale where we have failed. They have done so by promoting an economic

development which violates our national concepts of individual economic enterprise.

We have spent an enormous amount of money to find out that the American concept of free self-determination is incompatible with the primitive outlook of the Indian. The cost has not yet been reckoned. Whatever the expense, we cannot hesitate to go on helping our Indian citizens, by whatever effective means, toward a better material environment.

But the expense is high enough to warrant a deep consideration of the methods we should use in helping similarly emerging people abroad. The fact is that we cannot afford to give financial help abroad on the same scale as we have given it to the Indian people within our borders. Even if such an approach were feasible, it would be far beyond our means. We *can*, however, bear in mind the lessons we have learned through a century of dealing with our primitive paradox. ■

Human beings as capital

Needed: More Quality and Less Quantity

by EDWARD F. RENSHAW

■ AS THE German economist, Heinrich von Thunen, noted almost a century ago, "a moral timidity seems to keep authors and everybody else from thinking about what a man costs and what capital is invested in him. The human being seems to us too superior, and we fear to do a disgrace by involving him in considerations of this kind."

In commenting on the tendency of economists to neglect the study of returns on human capital, T. W. Schultz, Chairman of the Department of Economics at the University of Chicago, has suggested that, "The answer is that we cannot easily rise above our values and beliefs; we are strongly inhibited from looking upon men as an investment, except in slavery, and this we abhor. . . ."

While we may be reluctant to acknowledge the role of "human capital" in the economic sphere, there is nothing in the concept which implies it should not exist wholly for the sake of the individual and his family. If by investing in themselves people can enlarge their economic opportunities and thus enhance their productivity, investment in human capital may be a way of improving the welfare of free men rather than a source of bondage.

In this article we shall attempt, first, to note some of the similarities and differences between human and nonhuman capital and, second, to comment upon prospective returns from investment in human capital—in particular the pecuniary returns to be expected from investment in

education and training as opposed to mere numbers of human beings—the problem of quality vs. quantity.

It has been estimated that a healthy and mature human (or work animal) can convert about 35 per cent of the latent energy in the food he consumes into work. This is better than the gasoline engine—which typically converts only about 25 per cent of the fuel energy it consumes into work—and compares favorably with the diesel engine. The remarkable efficiency of the human being, his greater flexibility and his capacity for intelligent behavior suggest that the substitution of machine power for animal power is not a matter of technical superiority, but the result of energy price differentials and characteristics of the capital stock.



Considering energy price differentials, we find that carbohydrate food energy (assuming a minimum of preparation) is five to 20 times as expensive in the United States, calorie per calorie, as most petroleum products. The discovery of cheap petroleum was probably the decisive factor in bringing about the ascendance of the internal combustion engine; but we have every reason to believe that existing price differentials are a temporary, albeit persistent, phenomenon.

Given our present 90 per cent dependence on fossil fuels for energy, the rapidity with which these fuels can be exhausted, the expense and inconvenience of general electrification as a substitute, and the even more formidable problem of radioactive waste disposal, we can well ask whether we are not pricing fuels too low. By placing a stiff tax on the consumption of nonrenewable energy so as to discourage wasteful usage, we could stretch our limited supplies of fossil fuels to last for a period of a thousand years. By so doing we would give future generations nearly 10 times as much time as they now have to overcome the technological difficulties inherent in substitution.

Let us now turn to the characteristics of human and nonhuman capital. The most striking and possibly the most enduring advantage of the internal combustion engine over the human motor is that it takes less time and capital to develop. Contemporary definitions of the labor force include only persons over 14.

And a variety of factors discourage entry into the labor forces before 18. In contrast, a scoop of Mesabi ore can be converted into a tractor in considerably less time than a year.

The amount of food energy required to raise a child to the age of 15 is estimated at about the equivalent of three tons of wheat flour. While accurate statistics are not available, it seems safe to infer that not more than a tenth as much energy from fossil fuel is used to fabricate a tractor of equivalent horsepower.

Admittedly, this comparison leaves out other kinds of costs, notably the human energy devoted to baby tending and to machine fabrication, the energy used in food preparation and for warming the child and the worker, the energy tied up in various forms of producer and consumer capital, and the large amount of energy required to move people and goods. It does, however, serve to illustrate an important difference between human and nonhuman capital. *Provided high-grade coal and iron ore are located in close proximity to each other, the amount of resources tied up in a given horsepower of human capital is appreciably greater than the real (energy) resources required to produce a mechanical horse.*

The fact that more capital is invested in a human motor than in an inanimate motor of equal horsepower does not necessarily mean that less capital is used up by an inanimate motor in the process of performing a unit of work. The human body, with its self-repairing ability,

will probably always remain more durable.

A farmer, for instance, in the course of a lifetime, may wear out half a dozen or more tractors, and thus, on a proportionate basis, use up or depreciate as much inanimate capital as he himself loses in the course of growing old and feeble. The important difference is that a man, in his prime, represents a greater capital sum, at least in the more advanced countries, than his horsepower equivalent in other kinds of prime movers.

The shorter time required to produce a mechanical horse and the smaller amount of energy tied up in its construction help to explain why industrialization can, for a time, proceed much faster than population growth. One of the more unfortunate aspects of rapid technological progress is that it tends to obscure the problem of scarcity of natural resources.

Weight of numbers

Since World War II, the population of the United States has increased at a compound rate of about 1.8 per cent per year. If this rate of increase continues, our population will double in 40 years and quadruple within the lifetime of some living individuals. The amount of resources that would be required to maintain a population of over 700 million at our present standard of living is staggering almost beyond belief. The congestion which would result if this many people were crowded into our metropolitan areas, together with their automobiles, is not pleasant to contemplate.

It is this specter which leads me, as an economist, to concur with a number of eminent demographers in suggesting that the social returns from investing in increased numbers, even in a country as underpopulated as the United States, are negative. Future generations are likely to be better off if emphasis is shifted from increasing the *quantity* of human capital to improving its *quality*.

Economists have begun to pay attention to one of the most important ways to improve the quality of human capital—that is, education. Already a raft of estimates, purporting to measure the returns from invest-

ment in education, have been published. Nearly all these estimates have been derived from census estimates of money income (or earnings). These estimates are converted to constant dollars and divided by the number of years of schooling. They suggest, at any given point in time and within the range considered, that a year of education has, on the average, a constant monetary value.

Thus, it is estimated that a person with 12 years of education can, on the average, expect to earn nearly half again as much income per year as a person with eight years of schooling; and a person with 16 or more years of education, roughly twice as much income as a person with only eight years of schooling.

If the differences in mean income associated with a college education are projected into the future, discounted to a present value on the bases of interest and life expectancy tables, and compared with estimates of public and private expenditures on education, a return on investment in education on the order of 15 per cent is usually obtained. This rather spectacular return has justifiably been criticized on the grounds that it imputes nearly all income to formal education.

One way to partly adjust the estimated return on education is to allow for income which should be attributed to property, professional training and to basic (uneducated) human capital. This can be done by focusing one's attention on median rather than average income differentials and by adding to expenditures on the part of educational institutions, for teachers, books and classrooms, an estimate of earnings foregone as a result of students attending class. Estimates derived in this way suggest a return in the neighborhood of about 10 per cent.

Caution on returns

The problem in interpreting even the adjusted estimates is that they probably overstate the monetary awards of a college education. Those individuals with the intestinal fortitude and/or financial resources to complete a college education are a select group. The median income differentials associated with a bachelor's degree could just as easily be

attributed to "know-whom," a willingness to work harder, education received in the home, natural ability to profit from experience and training received after college, and other factors.

If an allowance is made for scarce ability and for other kinds of education, it is probably safe to conclude that the net returns to formal education are not significantly greater than the returns which can be obtained from investment in more conventional capital. More-



over, the returns associated with years of schooling are essentially averages and do not tell us anything about the fortune of particular individuals.

In 1958, for example, about 2.7 million men with college degrees had incomes under \$7,000, whereas 1.9 million high school graduates received more than this amount. The attainment of a higher education may, in some instances, lead the student to become a very modestly paid minister, an underpaid civil servant, or a not-so-affluent professor rather than a successful doctor or highly paid corporate executive.

If the average returns from a college education are compared with

the earnings obtained through a first-class apprenticeship program, it would be my guess that a bachelor's degree must, in the final analysis, be justified for its own sake and for what it represents in terms of larger social values.

Most people with four or more years of academic training are inclined to rate the noneconomic benefits of a degree highly. But it is as easy, judging by the number of students who drop out of college for lack of interest, to adopt a negative attitude toward "useless" knowledge. Indeed, learning can be hard work, and professors are sometimes less than inspiring.

Education as capital stock

Although statistics on returns from investment in education should be interpreted with caution, I do not mean to imply that education is unimportant. Even if education did not yield a market rate of return, it would still constitute our most important form of wealth. This is true because of its exceptional durability in use. In another context, this author has made calculations which suggest that the stock of educational capital is at least as important to the productive process as all forms of reproducible plant and equipment used by business and government to produce the gross national product.

The remarkable recovery of Western Europe following the destruction of World War II should erase any doubts concerning the relative importance of knowledge and skills which are embedded in the minds of individuals.

The formation of educational wealth is especially topical at this time, since it is predicted that the rate of capital formation at the college and university level will more than double during the next decade as the postwar baby boom reaches maturity. This means that the public will continue to face a problem of diverting a larger portion of GNP into education.

The problem of obtaining additional revenues may, in many instances, be of secondary importance to controversial questions relating to how monies should be spent. But it is doubtful that any issue will attract more attention or be the sub-

ject of greater debate in the decade ahead than the problem of increasing school revenues.

We in the United States are justly proud of our free public schools. Judging by the unique historical correlation between labor productivity and the educational attainment of the labor force (the trend in labor productivity is almost identically equal to our best estimate of the trend in educational attainment of the labor force), one can conjecture that our public schools may have been a crucial factor in our rapid rate of economic growth. In view of our cultural heritage and a natural tendency to associate *free* education with economic prosperity, any suggestion that elementary and secondary education be made *less* free is likely to be met with hostility and suspicion.

If, however, the problem of financing education is viewed within the context of the population explosion, it seems clear that the cost of educating children does not impinge directly enough upon parents to inhibit them from investing in an excessive quantity of children. In a technologically advanced country such as the United States where the quality of children is more important than the quantity, it is my judgment that parents ought to shoulder a greater share of the cost of educating their offspring at the elementary and secondary level—and possibly a smaller share of the cost of education at higher levels.

During the next decade the United States will face the very difficult problem of absorbing the baby boom into the labor force. The economy is already faced with pockets of chronic unemployment. Given the high cost of human energy compared to mechanical energy—which is a tribute to man's inventiveness and a reflection of our abundance of natural resources—industry cannot afford to hire people to lift, shove and pull. More than ever an *educated* labor force will be needed.

In view of the delinquency and social unrest which will result if young people are not provided with productive ways to occupy their time, imaginative new proposals and institutions may be needed to provide the youth of today with the skills

of tomorrow. While the temptation will be strong to make junior college compulsory—an expedient way out of a difficult problem—not all youth is fitted for an academic life.

The educational crisis of the 1960s, I submit, will center on the expansion and improvement of our trade schools and apprenticeship programs. Too little thought and planning have been given to the problem of providing educational training for those who do not want to go to college or do not have the ability to succeed in a university environment.

In suggesting that it will be difficult to absorb the baby boom into the labor force, I do not mean to imply that it cannot be done. If

businessmen invest courageously in training programs and plant and equipment, and if labor unions forego some wage increases, we can surely find jobs for everyone who wants to work.

I suspect, however, that as the baby boom sprouts wheels on our freeways, many an adult will echo the sentiment of John Stuart Mill: "There is room in the world, no doubt, and even in old countries, for a great increase of population, supposing the arts of life to go on improving, and capital to increase. But even if innocuous, I confess I see very little reason for desiring it. . . . A population may be too crowded, though all be amply supplied with food and raiment. . . ." ■

Realities in Search of a Theory—No. 3

The Corporation as an Instrument of Change

by **RICHARD EELLS**

■ MOST OF US REALIZE that we live in an era of accelerating technological change. It is estimated that in 1700 it took 200 years to travel the road from discovery of a physical law to the attic inventor to the production of marketable goods. In 1950 that lag was 25 years. Today it is assumed to be about 10 years.

But there have also been important ideological innovations that require recognition. These changes relate ultimately to the shift from bondage to freedom, from a fixed status system to free contract arrangements, from nation-oriented economy to international economic community.

How have we been able to move so fast and so far without becoming disoriented by the adjustments we are called upon to make? In providing a comfortable if complicated existence for our people, have we

Third of a series of articles dealing with the lag between the way we think our economy behaves and the way it actually does behave.

undermined their integrity and self-reliance?

We are fortunate in being part of a society which puts a premium on change. As the philosopher George Santayana has pointed out, "The American is . . . the most adventurous, or the descendant of the most adventurous of Europeans. It is in his blood to be socially a radical, though perhaps not intellectually. What has existed in the past, especially in the remote past, seems to him not only not authoritative, but irrelevant, inferior and outworn. He finds it rather a sorry waste of time to think about the past at all. But his enthusiasm for the future is pro-

found; he can conceive of no more decisive way of recommending an opinion or a practice than to say that it is what everybody is coming to adopt. This expectation of what he approves, or approval of what he expects, makes up his optimism. It is the necessary faith of the pioneer."

But even a society receptive to innovation like ours is not as a rule equally receptive to the new institutions that technological change requires. One of the most important new institutions designed to cope with the increasingly faster pace of technology is the modern, large business corporation.

A corporation is not a charter, filed in a drawer in the state house. It is a new community of men who represent individually an enormous variety of backgrounds and conditioning. Their ranks include lawyers, bankers, doctors, economists, managers, chemists, physicists, engineers, along with the traditional accountants, salesmen, skilled labor and office personnel. Under the corporate standard these become men *in* business, but all too frequently they do not identify themselves as men *of* business, or they could not separate themselves from its operations as they do.

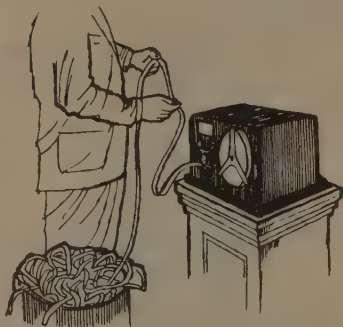
Outmoded image

There has been much talk lately about the deplorable lack of communication between science and the old disciplines of the liberal arts. But it is equally deplorable that, in an age when most men's lives depend in one way or another on modern economic organizations, the outmoded image of the businessman as the Classic and Medieval civilizations saw him still prevails. This image prevents the corporation's employees, stockholders and customers from identifying themselves with business as a condition of modern life—and perhaps as a condition of our survival as a nation.

Since very early times, the man of business has been regarded as a creature apart. It was once hardly remarkable to find about him such a statement as this from Webster's unabridged dictionary: "It seldom happens that men of a studious turn of mind acquire any degree of reputation for their knowledge of busi-

ness." The businessman has been seen as crafty rather than intelligent, conniving rather than wise. This image may also account for the distinction we make between *profession* and *trade*, though it is quite obvious that many professional men are better than average at coping with the business side of their occupation.

Preindustrial upper-class British and European theories of what constitutes a suitable life of action for a gentleman have also contributed to the traditional image of the business-



man. Trade was the occupation of a merchant, especially a retail merchant. However prosperous a merchant might become, he was still held at arm's length by the landed gentry, the land grant aristocracy of a predominantly agricultural society. To be in trade was to be a member of the middle class and consequently "not a gentleman."

Despite the fact that today's aristocracy is backed by stocks and bonds rather than by real property, the convention that the typical businessman is a loud, tasteless parvenu, neither well bred nor well educated, still persists in many circles. The banker or financier, however, is somewhat better thought of, perhaps because in a society that worships material values there is a mystique about his occupation. He uses money to make money and so assumes something of the role of the medicine man.

The most ancient prejudice against "making money" as a way of life was not social, but religious. The Bible had stated flatly that the love of money was the root of all evil, and the early Christian writers, therefore, looked upon business as a peril to the soul. The more a man prospered

in this world, as a result of getting and spending, the more his well-being in the next was jeopardized. "It is harder for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God" was the way Biblical teaching summed up this idea.

In Biblical society, barter was the traditional, acceptable medium for exchange both of goods and services. Once money entered in, it was assumed to have brought its inherent evil, avarice, with it. Money was regarded as a static thing, a symbol, not in itself good as the things of nature are good, nor as a man-made artifact is good for some human purpose. The myth of Midas is the pagan analogy of this argument. Because he loved gold, Midas begged the gods to grant him the power to create it at his touch. Yet the gift proved fatal, for while it transformed the food he ate into further riches for him, it deprived him of sustenance, and his embrace froze his living child to a golden image.

The notion that money, an inanimate metal counter, could generate more money was anathema to the Christian dispensation. Throughout the Middle Ages, money earned by money, or interest, was condemned as usury, a mortal sin for which Christians risked eternal damnation. The Jews, outside the fold, ran no such risk and they became, as a result, the great loan agencies of the Middle Ages, the pioneers in the practice of investing money at interest as an occupation.

Business thus became not merely a matter of administering the affairs of an estate, nor even a way of earning a living with the exchange of particular goods or craft services, but a special kind of occupation which dealt in any and all kinds of goods and services, including banking and finance.

Today the word "business" is generally used as a blanket term to cover a number of varied occupations. It describes manufacturing, commerce, trade and such special aspects of these as marketing, merchandising and advertising. It includes banks, stock exchanges, insurance companies, public services, communications, transportation and the accounting divisions of all large

noneconomic organizations. It has even become difficult to say what is not a business. It is probably safe to conclude that any individual or group whose working career is dedicated to making a day-to-day profit is in business. Strictly speaking, therefore, the salaried organizational employee is not a businessman unless his business is dedicated to making a profit.

We make a distinction between making a living and profit making. The other major distinction we make in speaking of business is with respect to size. There is small business, which appears to be allied in most people's minds with the connotations surrounding the old idea of trade; there is also big business, a 20th-century innovation which has so many ramifications that it is not yet classified as to social function. It is significant enough socially, however, to be a focus of respect, of fear and of financial contributions. The one common denominator of all businesses—large and small—is their desire for profit.

But we still do not sufficiently distinguish between the nature of the modern corporation and the nature of those forms of business which preceded it. It is not my intention to insist that the corporation has more merit or virtue than less precisely defined business units. I should merely like to point out that the argument that has swirled around the corporation since the late 19th century has not been provoked primarily by what the corporation is or what it does. Rather, that argument has been stimulated by the almost atavistic antagonism toward business which has persisted since the earliest times and still shows itself in such ambiguous reactions to business as one sees manifested through the years by one or the other of the political parties. The hue and cry against the big business corporation, when it arises, is frequently compounded of the historical suspicions of business apparently inherent in our culture.

Sometimes, however, the impetus toward controlling big business seems to come from a fear of the possible power such organizations might come to wield in a society dedicated to the idea of pluralism—

or the dissemination of power among many groups. What justification is there for such fears? What are the real motives of the businessmen who seek to form corporations?

Let us concede, to begin with, that no group of people would bother to go through the outward forms required by the state for the formation of a corporation if this would not facilitate the achievement of a common purpose.

Besides this, in a society which lives under the rule of law, there are natural advantages to having the protection of the law, particularly if the association shows promise of growth. The incorporation law, for example, protects the individual member of the corporation from severe loss through a "limited liability" clause. Thus, if the corporation fails, there are limits to the liabilities that can be charged against its members.

Social basis of the corporation

Does this mean that the corporation, protected as it is by law, enjoys undue power? Not if the corporation is considered to be "the mere creature of the law" and its corporate privileges can be granted or withheld by the state as the state pleases. As God made Adam, so the state may be said to have created the corporation. In theory, the legislature may dangle the corporate puppet on a legalistic string and command it to live or die according to the sovereign will.

But this view is obviously at odds with the economic political facts. The modern corporation in American society can hardly be considered a mere puppet of the legislature. What is the corporation, then, if it is more than a legal figment?

It can be demonstrated that the corporation is an expression of basic social needs. With its ability to organize people and material things for constructive purposes, the corporation has become one of the indispensable mechanisms through which men work out their destinies as they see them.

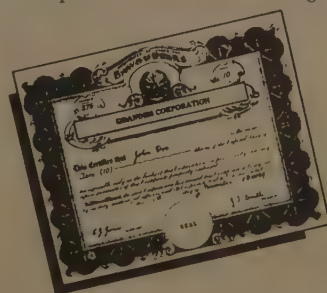
Society has insisted upon a high degree of freedom of association, even in corporate form, which the state may, in theory, grant or withhold at will. And some of the fas-

cinating chapters in our constitutional development are written on the struggle to protect corporate autonomy, once it has been granted. In this respect, the right of incorporation represents one of the great freedoms in the United States, and one of the main forces in creative social evolution.

What is often forgotten is that the corporation is a smaller *community* within a larger one, and thus participates in a common life which has aims rising above economic goals alone. The corporation is expected to fulfill the ordinary duties of the citizen, to obey the law, to support health and education programs, to observe zoning restrictions.

But it is expected to do much more. The fact is that the largest industrial corporations, with installations in many places throughout the nation and in foreign countries, are not "citizens" in any ordinary sense. Nor are the obligations of "corporate citizenship" merely the sum of the *local* community obligations; they also include national and perhaps even international obligations. Thus we must, in assessing the community responsibility of such a widespread operation as the large corporation, take into account the several political governments that represent this larger public. To take a specific example: Will manufacturing corporations in the future encounter increasing pressure to maintain plants and facilities which have proved unprofitable simply in order to keep local populations employed and the national unemployment rate from rising?

The safeguarding of corporate freedom requires incessant attention to the entire social environment and ideological climate in which the enterprise exists. The *persona ficta* of the corporation has no natural right



that takes precedence over the rights of man. The law governing business relationships recognizes many different obligations to different groups, and there are no clearly stated principles to be derived from it which give one group of obligees undisputed priority.

But there is, in addition to the law, another set of obligations created by custom, by business practice, by codes of ethics, by the proponents and the critics of the status quo. Business executives believe that they do, in fact, stand responsibly at the helm of a major social institution. The corporation's place in modern society is a changing one, but it is already playing many roles, whatever may be its characterization in the central tradition of law and economics.

Updating the self-image

As time goes on, the public, acting through governments, shows more and more interest in corporate affairs. Management decisions, in turn, tend to reflect an awareness of public attitudes. One of the most important functions of management is to act as a wise and just arbiter of the competing claims of stockholders, workers and customers. Thus a heavy responsibility is placed on management to perform this quasi-judicial function to the general satisfaction of society.

But the image of the corporation in the public mind still lags behind reality. The turn-of-the-century image of the businessman as a cigar-puffing fellow, gripping moneybags as bloated as himself, still stands in the way of any effort to create a fairer image of today's corporate business.

One major problem in projecting a favorable and consistent corporate image is that corporate managers themselves have great difficulty in perceiving the corporation in terms of 20th-century social beliefs, expectations and promises. Thus the public's image of the corporation mirrors inconsistencies in the attitudes and behavior of the men who manage the business enterprise.

In order to define and communicate a favorable corporate image, someone in the organization must perform the "intelligence" function

of sensing the social climate in which the corporation operates. Then management must be able to coordinate company activities which are in the public eye with those specific public relations functions that have as their goal the projection of the corporate image.

Because of the often close relationships between top management men and boards of directors, many observers have designated an undefined group of powerful corporation executives as a great "power elite" in our society. These men, they say, are a self-perpetuating oligarchy with a potential for serving society well or ill.

Do they have a social conscience? Should they have a social conscience? Or is there such a thing as an economic conscience? These are questions that are being widely asked. In fact, this concern for social responsibility has made management personnel defensive about their role as responsible directors of private enterprise. In their zeal to prove that capitalism is socially as well as economically useful, they may be unconsciously reshaping its functions.

In assuming a responsible attitude, managers are doing more than fighting a rear guard action against the dominant ethical demands of society. They are reacting prudently to the collective needs of the enterprise for which they are responsible. Their responsibilities to the owners of corporate property are not side-stepped when they recognize duties to others who contribute to the well-being of the enterprise. A prudent regard for all the interests that merge in making the business a going concern now and in the future is, in

the final analysis, the only way to protect and to augment shareholder equity.

The corporation as an institution has become so much a part of American life that it is difficult to imagine what the world of work and action would be like without it. Many will argue that it has not completely fulfilled the expectations aroused by its performance in time of stress. But there is no doubt that the American standard of living is made possible by its organization and its use of resources.

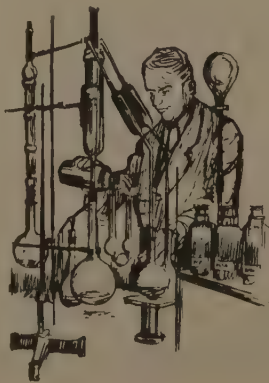
Further, as Edward S. Mason has said: "We look to the corporation for the technical improvements that spark our economic growth. The corporation recruits our youth from college and provides them with pensions in their old age. It is the present support of community chests and other local charities and the future hope of institutions of higher learning. All this is to suggest not that the corporation cannot be touched but that to touch the corporation deeply is to touch much else."

Price of failure

Although we may sometimes question the power and motives of the corporation, we perhaps fear its failure more. Each failure would affect too many lives. For, the legal concept of *persona ficta* has obscured the corporation's true identity. It is not a fictitious person, but rather a social grouping of individuals, pursuing the ends of survival and betterment.

Once production plans and schedules are met, personal advancement and proximate ends loom far larger in the minds of the corporate society than do ultimate aims and responsibilities. Yet, there is little doubt that if all the men whose destiny is bound up with it identified themselves with the corporation as institution, it might become far more than a remarkable system for supplying goods and services through and to a vast number of persons.

It becomes obvious as time goes by that we occupy a far smaller area of the world of scientific and technological improvement than we might if we were not impeded by the residues of the past. Physically, high replacement costs will perhaps



continue to bar the way. So will sheer group ignorance of scientific and technological potential. But intellectually there is no excuse for continuing to ignore the tremendous potential of the corporation as a force for innovation.

Technological complexity has forced us into a form of interdependence unique in history. One of the outgrowths of this situation has been the development of the corporation, a model of organization built on the principle of freedom of

association. While the chief interest of the corporation is the production of goods and services, its total know-how is more than adequate to meet a variety of 20th-century emergencies to which it has all too rarely been called. ■

The future of consumer durables

END OF AN ERA?

by WARREN J. BILKEY

■ A SUSPICION has arisen during the past few years that consumer durables, such as houses, cars and washing machines, are not buoying the economy as much as they once did. *Business Week*, for instance, said recently: "Consumer standoffishness toward durable goods (whether from lack of money or lack of interest) must be viewed with some alarm."

What is the reason for this concern? It stems from the role of consumer durables in the national economy. Though they account for only approximately eight per cent of the United States gross national product, their effect on over-all economic activity is considerably greater than one might imagine from this figure.

One can put the matter as simply as this: large plants are needed to produce consumer durables; therefore, any changes in the demand for such goods usually lead to substantial investment—or disinvestment—in the industries producing *capital* goods.

The evidence is substantial that much of our post-World War II prosperity was based on the greatly increased demand for consumer durables. Many items had worn out during the war and needed replacement; many new families had been formed; and many families that had "doubled up," because of low incomes or the housing shortage, looked forward to starting their own housekeeping.

This demand caused manufacturers of consumer durables to increase their production facilities at a time when the steel industry and the machine tool industry were already operating at full capacity. As a result, employment in these industries went up, leading to further increases in consumer demand, which, in turn, induced still further investment, and so on.

Today, many of these special post-war factors no longer apply. What, in today's affluent society, is happening to the demand for consumer durables? To answer that question we must first ask what changes have taken place in the proportion of income that is spent and saved.

One important variable here is income distribution. In our society a moderate increase in income inequality tends to increase the proportion of personal income that is spent. The reason for this is that in the United States social status is determined to a large extent by a person's *apparent* income—which can only be shown by expenditures on consumption. Conspicuous saving, after all, is virtually impossible.

If, on the other hand, incomes become more evenly distributed, the differences in expenditures among income classes are less visible. In that case, social pressure to keep up with the next higher income class weakens.

This results in a smaller percentage of incomes being spent than when

incomes are less evenly distributed.

According to available data, there has been an increase in income inequality since 1951, and there is no evidence that this trend will change in the foreseeable future. The data also show a slight increase in the percentage of disposable personal income being spent—from 92.1 per cent in 1952 to 93 per cent in 1959.

For the same reasons consumer debt relative to income rose during this period. I believe that the proportion of disposable personal income spent will rise somewhere between 0.25 and 0.50 percentage points per year over the next five years. In terms of dollar amounts, this is quite significant.

The young and the retired

Another important variable making for an increase in the proportion of personal income spent is the changing age composition of our population. Especially significant in this connection is the increasing proportion of young married couples and of retired people. Young married couples tend to spend a larger fraction of their income than established middle-aged families. At a time when they are setting up housekeeping and raising young children, young married people spend nearly everything they earn—or more. This is because their expenses are heavy and also because, being young, they feel little need to save for a distant old age.

Retired people also spend a greater proportion of their income than middle-aged people do; they receive pensions that formerly they were saving for. Thus the change in the make-up of the population will tend to raise the average percentage of personal income spent.

Though the proportion of income spent is likely to rise, what share of consumer expenditures is likely to be spent on durables? Two in-

fluences are at work here. One is cyclical and the other is long run—or secular.

The cyclical influence is felt in the following way. During periods when personal incomes rise rapidly, the proportion of consumer expenditures going into durables tends to increase. During periods of falling personal incomes, the opposite occurs.

There are several reasons for this. First, purchases of durables are sensitive to "transitory" variations in income—that is, to temporary increases or decreases in what families consider to be their "normal" income. Most families tend to adjust their general living activities to harmonize with their more or less consistent or "normal" incomes. Then, when they have windfall additions to their incomes (due to overtime work, bonuses, etc.), they can buy durables without curtailing their regular living activities. When they experience temporary decreases in income (due to layoffs, curtailed commissions, reduced profits, etc.), they can continue many of their regular living activities by simply postponing the purchase of durables. In either case it is their spending on durables which is most immediately affected by changes in family income.

Another reason why expenditures on consumer durables are so sensitive to change in personal income is consumer debt. Consumers are willing to incur installment debt when income prospects are rising and they are reluctant to do so when these prospects are uncertain or unfavorable.

Influence of rising incomes

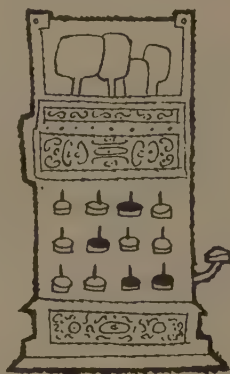
For most of the period following World War II personal incomes have been rising. This explains why the proportion of total consumer expenditures devoted to durables probably has been higher than it would have been if incomes per family had remained constant.

This conclusion is reinforced by the data on the proportion of personal consumption expenditures devoted to durables before and after the war. Between 1929 and 1940, when incomes were not rising, durables never claimed more than 12

per cent of expenditures. But between 1947 and 1959 they were always above this level, climbing at times above 15 per cent.

If a recession were to occur, past experience suggests that the consumption expenditures might fall by as much as six percentage points from this present level. At first glance this might not seem very large, but with the present composition of consumption, a six percentage point change in the proportion of personal income going into durables means a nearly 30 per cent change in total consumer durables sales.

But aside from these cyclical influences, any secular or long-run



change that may be occurring can also influence the consumption of durable goods. Is there evidence that such a change is taking place? In his book, *The Conditions of Economic Progress*, Colin Clark, the well-known Australian economist, argues that as nations develop, the proportion of their working population engaged in primary production—for instance, agriculture and fishing—tends to decrease, and the proportion in secondary production—for instance, manufacturing—increases. Furthermore, as nations continue to develop, the proportion of the working population in secondary production begins to decrease, and that in tertiary production—for instance, services and commerce—to increase.

These shifts occur, he claims, because consumers' preferences tend to change as their incomes increase, and this forces a reallocation of productive resources. As consumers achieve

higher incomes, they presumably devote an increasing proportion of their expenditures to durables; later, as their incomes continue to rise, they tend to decrease the proportion of their expenditures going for durables and to increase the proportion for services.

Prof. Clark's arguments are persuasive but difficult to check for a number of reasons. First, he is vague regarding what is specifically included under primary, secondary and tertiary industries. The U. S. Department of Commerce does not define consumer durables, nondurables and services in a way that corresponds closely with Clark's primary, secondary and tertiary industries. Second, consumption trends are a consequence of price changes as well as of preference changes, and it is difficult to separate the two effects on the basis of existing data. Nevertheless, we can make the following relevant observations:

- There is evidence that high-income families tend to devote a larger fraction of their incomes to medical care, recreation, foreign travel and education—all services—than do low-income families.

- During the past 30 years the proportion of total consumption expenditures in the United States has tended to increase for private education and research, for foreign travel and remittances, for medical care, insurance and for transportation.

- While the proportion of total U.S. consumer expenditures going to services is still below the 20-year average preceding World War II, it has been rising year by year since 1947 with impressive consistency—and no end to this trend is yet in sight.

- The evidence indicates that services may be displacing nondurables to a greater extent than durables.

Taking all these considerations into account, I see no reason for expecting more than a slight downward secular trend in the proportion of consumer expenditures going to durables.

One argument for this position is that from the consumers' viewpoint many durable goods are really convenient equivalents of services. Thus, if laundry is sent out, that is defined

as a service; but a washing machine is defined as a durable. Taxi and bus rides are considered services; but an automobile is considered a durable. Movies are regarded as services; but a television set as a durable. However, between durables and services that are not equivalents—for instance, an automobile as compared with foreign travel, or a house as compared with education—the choices made would seem to depend on which alternative yields the most satisfying living pattern.

Technical developments that would make life more satisfying would be likely to increase durable expenditures relative to service expenditures. Alternatively, if durable goods manufacturers have nothing to offer except "forced obsolescence," durable goods expenditures are likely to decline relative to service expenditures. A paucity of fundamental imagination in producing more satisfying durable goods could lead to some secular decline in durable goods expenditures.

No decline indicated

But there are other reasons why little or no secular decline is likely to occur in the proportion of consumer expenditures going to durables. For example, housing and boats seem to have replaced the automobile as the dominant status symbol, and together they are more expensive durables than cars.

Taking into account all these considerations—both short and long run—it appears that expenditures on consumer durables will depend, in the final analysis, primarily on what happens to personal incomes. Past experience suggests that consumers tend to spend between approximately eight and 14 per cent of their disposable incomes for durables. As incomes rise this percentage increases; as they fall it decreases. In light of this, let us consider the following possibilities:

- If the average per family income remains constant, and the present trend toward a growing inequality of income distribution continues, the proportion of consumer expenditures going into durables will probably decline from its present level by about 1.5 percentage points. This would mean a nearly 10 per cent reduction

in durable goods expenditures from the present rate. Population growth, however, and the resulting increase in total consumer expenditures would absorb this reduction in five or six years.

- If the average per family income increases slightly (around five per cent) from its present level, there will be a reduction of less than 10 per cent in durable goods expenditures. This reduction could be absorbed by the growth in population in five or six years.

- If the average per family income increases by more than five per cent from its present level, expenditures for consumer durables will increase. This will happen both because of the greater income itself—some percentage of income always goes for durables—and because a larger percentage of that income would tend to be devoted to durables. Population growth, changing income distribution and other factors would augment these increases over time.

The economic consequences of the possibilities outlined above are conditioned by the general excess capacity that today characterizes the United States economy. Under present conditions any decrease in expenditures for durables would cause investment in the producing companies to decline substantially for the first three or four years after the decrease in expenditure. The reason is that worn-out equipment would tend to be absorbed by existing excess productive facilities rather than by new productive facilities.

The corresponding increase in other areas of the consumer's budgets—assuming that there is no substantial decline in over-all personal incomes—would tend to be divided between services and nondurables. But under present conditions of excess capacity, this increase could be accommodated without any new in-

vestments. Thus the net effect of a decline in durables expenditures would be to reduce total investment for the economy as a whole, and to produce some depression of the national income and the level of employment for the next two or three years.

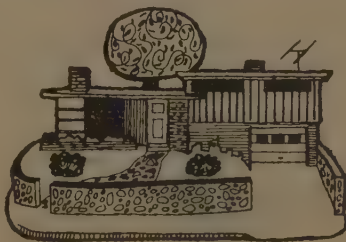
Were such a decline to be severe, some producers of durables would go bankrupt. This would result in increasing concentration within the durables industries. It would also perhaps tend to decrease the ratio of investment to sales, since the remaining firms would be larger and presumably would make a somewhat more efficient use of their productive facilities. Any decrease in this ratio would have a secondary effect on aggregate investment and thereby on national income and employment.

On the other hand, increases in consumer durables expenditures would not induce the producers of such goods to increase their investments very much. Why should they? They already have the necessary facilities for increasing production,

In conclusion, consumer expenditures for durables tend to vary in such a way as to accentuate cyclical economic fluctuations. By themselves these variations are small relative to other unstabilizing elements in the economy. However, where the existing state of productive capacity is such that variations in consumer durables expenditures induce investment changes, consumer durables can buoy up the whole economy. This seems to have occurred for about 10 years after World War II.

But today there is considerable excess capacity in most of the economy. Under these circumstances, possible increases in consumer durables expenditures lead to little or no investment, while possible decreases in such expenditures lead to some disinvestment. This, in turn, would tend to have a mildly depressing influence on the economy as a whole.

Thus, demand for consumer durables will not automatically ensure a rapid rate of economic growth. If, therefore, we desire our economy to expand more rapidly than it does now, we shall have to decide what steps to take in allocating our resources to achieve this end. ■



The Diplomacy of Economic Aid

by EUGENE R. BLACK

■ DEVELOPMENT DIPLOMACY is such a new art in the affairs of nations that before it can earn for itself a recognizable status in the policies of the Western nations there must be a greater understanding of its specific aims and objectives. And since I will argue that economic aid cannot be effective without a separate and distinct status in the policies of these nations, let us first consider at some length just what these aims and objectives are.

The development diplomat must fill the gap between the conventional diplomat and the trader and the investor. His aim should not be commercial or strictly economic, but neither should he be concerned with the narrow political objectives which sometimes overburden the regular diplomat. The development diplomat should be a man with a vocation, rather than a man with immediate terms of reference. As an artisan of economic development he should use the tools of economics and other disciplines as best he can to place in perspective, to shed light on and to illuminate the choices before the decision makers in the underdeveloped world.

When I say, "illuminating the choices," I refer to the problem which economists call "the allocation of resources." Now it is not economists but politicians, civil servants and businessmen who decide, for the most part, how the resources of a country are allocated. The professional job of the economist is, or should be, to make the politician, civil servant and businessman aware of the economic consequences of their decisions, and to provide evidence on which the decision makers can weigh the benefits and costs of alternative courses of action. The hope the economist holds out is that there will be a "better" allocation of resources if decisions are taken

Excerpted from the chapter of the same name in Mr. Black's book, *The Diplomacy of Economic Development*, published by Harvard University Press. Copyright 1960 by The Fletcher School of Law and Diplomacy.

with the knowledge of their economic consequences. This is the same hope development diplomacy holds out.

This may sound like a strange role for a diplomat, but as a practical matter in the modern world it promises to be the most effective way in which the free nations can exercise a constructive influence on the development of the underdeveloped countries. The task of illuminating choices goes right to the root of the development problem, which is often said to be a lack of resources, or of savings, or of education, or of entrepreneurship. These are all part of the problem, but it is more useful, I think, to look at it in terms of the decisions needed to make more of the potential for growth that already exists—decisions to organize idle time for productive work; decisions to transform unproductive investment; decisions to turn a classical, Western course of study into a course of study more relevant to an underdeveloped country, and so on. Each of these decisions involves making choices.

Usually the choices must be made on the basis of very imprecise and fragmentary evidence. But it can be said that insofar as these choices are made without regard to the economic consequences, they are much less likely to yield "good" decisions in terms of growth, tolerance, freedom and all the other aims which free nations believe in and seek beyond their shores. Thus, we can say

that by illuminating the choices before the decision makers—whether they be politicians, businessmen or bureaucrats—development diplomacy performs a very practical task and one no other kind of diplomacy is directly concerned with.

But to put some meat on the bones of these ideas let us examine this notion of development diplomacy in action.

Very often people come into my office after having visited some country or other in the underdeveloped world to tell me what they think is wrong with that country. And I am told that the trouble with country X is that the people won't work; the trouble with country Y is that there is a desperate need for outside capital; and the trouble with country Z is a lack of entrepreneurs. In each case it is some obstacle, more or less immovable, that is seen to be standing in the way of progress.

The pessimists among these visitors point to the social and political obstacles in the way of growth—whether they be India's sacred cows or the nationalistic oil policy of Brazil—and conclude that the World Bank is definitely wasting its money making loans to these countries. The optimists, on the other hand, urge the Bank to redouble its lending because they believe that all that is needed to redeem the situation is more money. . . .

It is really not just a lack of capital per se, of savings per se, of education per se, of entrepreneurship per se, and so forth, which stands in the way of more rapid growth in the underdeveloped world. It is more, useful, I think, to consider the problem in terms of how to achieve the kinds of decisions which are needed to make more of the potential for growth. For as there is a greater awareness of the possibilities for growth in society, many

of the traditional obstacles appear much less formidable.

Take entrepreneurship, for example, which is often cited as the key development component that is missing. We do not really know where entrepreneurs come from. If in England, entrepreneurs appeared among nonconformist traders, in Japan they sprang from the ranks of the petty nobility—the samurai. In India, the growth of entrepreneurship has been very complex, involving as it has the cultural background of sect and caste and the unique institution of the managing agency. . . .

What is true of entrepreneurship is broadly true of all the requisites for economic growth. As more people become conscious of the possibility of a better material life through a different use of their time, energy, and savings, there will be more productive work and more productive savings. By illuminating the choices before the decision makers, development diplomacy promotes such a consciousness and in this way helps to remove obstacles in the path of development.

Understanding the choices

This does not mean that direct attacks on some of these obstacles—the direct provision of development capital or the encouragement of new forms of education—are unimportant; on the contrary, they are indispensable instruments of development diplomacy. But as has been said time and time again, and cannot be repeated too often, no nation can supply another nation with more than a tiny fraction of the resources needed for self-sustaining growth; the road to self-sustaining growth must be built by the poor society itself. Therefore, the most important task development diplomacy can perform is to illuminate the choices that must be made in the building of that road.

Initially, illuminating choices involves asking questions. This is easiest to illustrate in terms of specific projects. The mere fact that a river runs downhill very fast, to take a simple example, is not sufficient reason to build a power dam. First a whole lot of questions have to be asked—and some kind of answers fashioned.

One must ask whether the construction of a power dam would meet some important objective; that is, would it provide power for a market that already exists or is in prospect? Would it provide irrigation waters for land which can be made arable in this way, and on which farmers might be willing to settle? Would it provide benefits in terms of flood control? Then one must ask whether a big power dam is the



best way of meeting any or all of these objectives. Alternative possibilities, such as a thermal power plant or a simple irrigation barrage, or both, have to be considered as possible choices.

And there are financial questions which have to be asked. In the Bank we deal mostly with large and expensive public utilities—port facilities, power projects, railroads, and the like. Obviously, if there is to be a rational allocation of resources in terms of growth, politicians, civil servants and utility managers must have a good idea of the real costs of these investment proposals. And since these projects can gobble up huge amounts of capital, rational decisions on whether and how to invest in them have vital importance for economic growth. . . .

Sometimes the weight of evidence points to fairly definite answers to the questions development diplomacy must ask in project analysis; sometimes there is a clear saving in efficiency in one alternative over the other. At other times there are no very precise answers. For example, we once had a spirited argument in the Bank over whether a mining company that approached us for a loan to buy modern mining machinery would do more to increase

productivity if instead it borrowed locally to build new houses for the miners. Obviously this is a question the answer to which is not subject to very precise calculation. But it is worthwhile asking the question nonetheless. . . .

Projects, planning, policy

Specific development projects provide the handiest illustration of what "the illumination of choices" means. But this is just the beginning of the story. Economic development cannot be described simply in terms of a series of projects, designed in a technological vacuum and unrelated to broader economic and political issues.

Economic development involves, in addition to projects, the preparation of an economic plan and the relation at the highest level of plan and projects to the formulation of a national policy of which economic policy is only one part. Unless these three sides of economic development—projects, planning and policy—are seen, not as three separate compartments of a box, but as three aspects of a single problem the shape of which is changing all the time, nobody concerned with economic development—neither the politician, nor the businessman, nor the development diplomat—will be in a position to judge usefully the economic consequences of a given decision or of alternative decisions.

It is in the planning process that development diplomacy finds its greatest challenge. The planning process should be the place where there are the greatest opportunities for illuminating choices and where the development diplomat should make his most important contribution. But unfortunately planning is still a very new concept and there is no broad consensus about the aims and objectives of the exercise. In fact, there are few more controversial words in the lexicon of development diplomacy. The concept of planning is bedeviled equally by the suffocating embraces of its idealistic champions and the cynical shafts of its detractors.

Between the idealists, who are more interested in imposing solutions than in illuminating choices, and the cynics who distrust planning

in all its interpretations, lies, I think, a rational definition of the concept which should be nourished. Planning, simply defined, should be the place where the political leader is faced with an awareness of the consequences of his decisions before he makes them instead of afterwards. Taking the definition one step further, it should be the means by which the lines of communication are kept open between those who make decisions, those who "illuminate" them, and those who carry them out.

Whatever outward form planning takes, if it does not keep these lines of communication open, there will be a mess. For example, in one country I know of, a development plan was prepared simply on somebody's assumption of the rate of growth that was desirable, "needed" or otherwise divined from national income analyses. Further assumptions were made of the capital that would be needed in various sectors of the economy to produce the output that was assumed to be needed. A massive document was drawn up on these abstract assumptions, with no attempt made to find out whether the necessary finance might be forthcoming or whether the plan conformed to the realities of the many, often quite legitimate, political claims on the country's resources. When all the work was completed, the head of the local planning commission admitted that it was really just an academic exercise and could not be taken seriously.

In this case it was just time and talent wasted. But I suspect in other cases plans drawn up this way become tantamount to the law of the land and have been the cause of more than one unnecessary financial crisis. This can be dangerous.

Needs and sacrifices

I am not criticizing the tools of economics, but the misuse of them. Unless planning involves first and foremost a bringing together of the existing claims on a country's resources—that is, unless it is based not on a single assumption, but on an appropriate range of assumptions, some induced and some deduced—the tools of economics cannot be safely and efficiently em-

ploied as a means of illuminating choices.

Neither economics nor any other academic discipline in and of itself tells us just what the shape and the magnitude of investment ought to be in a given country. These disciplines can suggest orders of magnitude and help us to judge whether



plans, projects and policy are well related to one another. But they cannot make economic development any less of a three-sided problem. Plans and projects must be checked and coordinated with the actual possibilities, with what people really want in the way of growth and change, and with what they are prepared to sacrifice. Otherwise, planning can lead at best to waste and at worst to the encouragement of extravagant forms of coercion.

There is a fundamental principle here as well as a matter of efficiency. At any given time, in any country, rich or poor, there is a conflict between the demands of growth itself and the demands which growth is supposed to serve. At any given time there is a conflict between the demands of growth and the demands for social welfare; between the demands of growth and the demands for economic security and employment for all; between the demands of growth and the demands of national power and prestige; between the demands of growth and the demands for cultural development. In the poor countries today these conflicts are particularly acute. Leaders there, as have leaders in all developing countries in modern times, want growth so that their countries can be strong and powerful; so that their people can have more jobs, modern social services and a more equitable distribution of income; so that they can assert their cultural renaissance with visible symbols of national prestige. But always at any given time there must be a choice

between more of these ends and more of growth itself. And against the background of mass poverty the choice is always agonizing.

Today the political leaders of the poor countries, besides having to reconcile traditional attitudes toward life and work, also have to reconcile most of the competing and conflicting objectives found in richer societies. Reconciling these objectives is a political, not an economic, problem. The economics of growth simply says that every time the demands of growth are overridden there is a price: the poor will remain poorer for longer. Whether planning transforms the tools of economics into useful political, as well as useful economic, tools or simply turns them into bludgeons with which to coerce society, depends fundamentally on whether planning is used as a means of illuminating choices or as a means of imposing solutions.

The use of planning largely to keep the lines of communication open among those who make decisions, those who "illuminate" them and those who carry them out, is the most effective way to achieve a rational and democratic resolution of the conflicts and contradictions which are inherent in the growth process. If only it encourages the asking of the right questions, planning cannot help but promote better answers in terms of growth. Furthermore, it can encourage policy makers to focus upon the necessity for engineering an escape from poverty and to make this idea a catalyst for transforming into constructive patriotism the nationalism which is rampant in the underdeveloped world.

For development diplomacy all this has rather obvious and immediate implications. Development diplomacy must recognize that if planning is regarded as a means of illuminating choices rather than of imposing solutions, then planning everywhere always involves a series of political struggles.

And the development diplomat cannot be effective if he ignores this fact or tries to remain above the struggle. While he is the partisan of growth, he cannot claim any absolute authority for his criteria; he knows that no matter how poor a

country may be there will be many occasions when considerations of justice or defense will necessarily override them. And because he is in a political struggle, he knows there will be other occasions on which he will be overridden by considerations much less compelling. This means he always has to work out the economics of the second, third or fourth "best" allocation of resources in terms of economic growth. But this does not mean that he is thereby rendered ineffective. If development diplomacy to be successful required imposing some grand design on an underdeveloped country, then the game would not be worth the candle even if it were possible to play it in this way. The strength of development diplomacy lies precisely in not becoming part of some grand design, but in illuminating choices in the real world where economic development and social change are interacting all the time.

In talking about planning I would not want to give the impression that all decisions have to be made at some central point. Indeed, nothing can be so deadening as a process in which every "t" has to be crossed by the highest authority. Apart from anything else, it denies opportunity for local or individual initiative. Initiative is priceless. To hold it within the general lines of national policy is one thing; to treat it as though it were of purely secondary consequence is another. Initiative should be encouraged wherever it is found, whether it be the personal initiative of the entrepreneur, the group initiative of a cooperative or the local political initiative of a town or a province.

How to achieve a consistent policy

line while still leaving room for private and local initiative is one of the most difficult arts of planning. Here is no place for dogma; it is folly in the face of the wide variety of economic experience in the world to suppose that what works in one country at one stage of development necessarily will work in another country at a different stage. At the same time the kinds of choices which politicians, bureaucrats and businessmen face in this matter can often be illuminated quite simply and dispassionately. For example, where there are private entrepreneurs willing and able to do development jobs, it is not necessary to appeal to ideology to make clear the loss which the community will suffer if they are denied their place in national plans. It is not necessary to appeal to ideology to make clear to the civil servant that both he and the private entrepreneur will have more time and energy for their respective tasks if general guidance of the private sector can be substituted for direct controls. Nor is it necessary to appeal to ideology to make clear the advantages of a development initiative by state or local government if the alternative is no initiative at all.

Rational and democratic

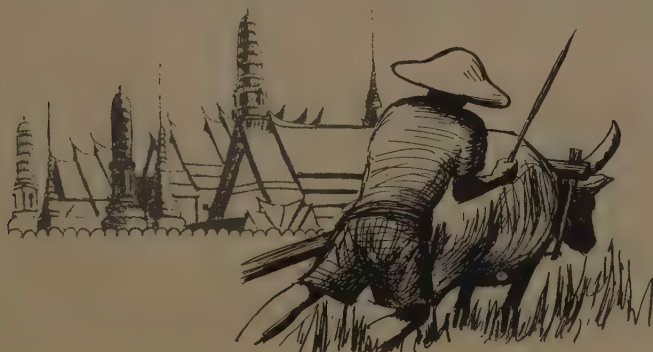
Again the strength of the development diplomat lies in illuminating choices, not in trying to impose solutions. If he is to succeed, he must be a man with a vocation, not a man with an ideological mission. And in no place is this more important than in the planning process, beset as it inevitably is with the most vexing of conflicts. I believe that out of today's planning procedures in many underdeveloped countries can grow

a habit of resolving conflicts in a rational and democratic manner which may prove eventually the most important means of encouraging a public respect for free institutions. And development diplomacy, much more than any other kind of diplomacy, will have an important part in determining whether or not this comes to pass.

But development diplomacy needs the backing of substantial capital; unlike some other branches of the art, it is not possible to succeed in this kind of diplomacy by just talking a good game. Development diplomacy needs capital because it must be a working diplomacy, capable of pointing to visible results at any given time. Development diplomacy needs capital because it needs to point to concrete development projects, the tangible proof that it is helping to engineer an escape from poverty.

And development diplomacy needs contacts; lines of communication of its own everywhere in the underdeveloped world; contacts with men and women to whom the right kinds of development decisions are an integral part of their own professional outlook; contacts with men and women who speak the language of economics without the taint of ideology. Right now there exists a very sizable guild of these men and women in the underdeveloped world; I know, because if there were not, the World Bank would not have been able over the last 14 years to participate in some 600 different development projects in 50 different countries. But these people need help and encouragement; development diplomacy must build on its contacts and continually make new ones.

Finally, development diplomacy must have a status in the national policies of the Western nations—not an overriding status, but a separate and distinct status which will allow it to function in spite of the bitter controversies of our times. Just as the development diplomat is a man with a vocation, so development diplomacy, if it is to succeed, must reflect a new sense of vocation in the West towards the historic transformation going on in the underdeveloped world. ■





Europe Will Not Wait. Anthony Nutting. 122 pp. New York: Praeger. \$3.50.

- How Britain lost the chance to lead Western Europe toward unity is recorded by Nutting in this short, well-written and hard-hitting book. The author, a former British Minister of State for Foreign Affairs, has firsthand knowledge of many of the events he describes. After World War II, Britain refused to join the European Coal and Steel Community, the projected European Defense Community and the Common Market. As a result, the Europeans of the Inner Six decided to go ahead on the road toward unity without Britain and rejected Britain's proposed European Free Trade Area. This split in Europe, Nutting holds, is a grave danger to Britain, for she will find her trade threatened by the Common Market.

To avoid the disaster which he foresees will follow from this split in Europe, Nutting proposes an economic NATO, patterned on the Common Market, for the whole Atlantic Community. Only by such a bold step can the Soviet bloc's economic threat be met.

* * *

The Unfinished Revolution. Adam B. Ulam. 307 pp. New York: Random House. \$5.00.

- The appeal of Marxism is at its greatest when people are suffering deep dislocations in their lives during the early stages of industrialization. It then embodies both a protest against intolerable conditions and a seemingly logical program for building a better society. Ulam, a professor of government at Harvard, shows how the popularity of Marxism as a revolutionary credo waned in Western Europe as the economic lot of the workers improved.

He examines the unusual circumstances in which Marxists seized power in Russia and argues that totalitarian rule grew out of the revolutionary technique which Lenin superimposed on Marxism. When the Soviet Union became industrialized, Marxism-Leninism, Ulam believes, ceased to have any wide appeal within the country. The Soviet rulers are therefore forced to justify totalitarian control by trying to export communism to underdeveloped areas.

Marxism, Ulam argues, holds a spe-

cial appeal to Asian, African and Latin-American countries as they begin to industrialize. Our effort must be to "help them move through the 'Marxist stage' of their development before the shackles of Communist totalitarianism are fastened on them."

* * *

More Resources for Education. Seymour E. Harris. 86 pp. New York: Harper & Brothers. \$2.95.

- How much should we spend on education during the next decade? By means of a carefully documented analysis, Dr. Harris, Professor of Political Science at Harvard University, comes up with the following conclusions:

Public schools will need an additional \$11 billion (over and above the \$14 billion being spent currently) for annual operating expenses by 1970. Institutions of higher learning will need an additional \$6 billion to \$7 billion (above current expenditures of \$4 billion). These sums will be needed to cover the higher costs of education — increases in the salaries and supplies of teachers, higher enrollment, more auxiliary services (health, vocational, etc.), and the backlog of construction needs.

Prof. Harris is convinced that the use of the tax power to divert expenditures from nonessentials to education is required for our survival and is consistent with our fundamental freedoms. He feels that state and local governments cannot assume a much larger portion of the education burden. The responsibility, he believes, lies mainly with the federal government.

Prof. Harris' report is a little technical for most readers. But it represents an important contribution to the great educational debate and does much to indicate the possibilities for resolving the policy issues.

* * *

The Waste Makers. Vance Packard. 327 pp. New York: David McKay Co., Inc. \$4.50.

- In this book Vance Packard continues his study of the problems of abundance in American society. He has compiled an impressive array of published and spoken comments by business leaders and ordinary citizens which indicate the frightening trend our society is taking toward "consum-

erism" (consumption for the sake of consumption) as a way of life. The author points out the appalling waste which is the inevitable result of too much consumerism and then goes on to ask such pertinent questions as these.

What will be the effects of this "philosophy of waste" on our dwindling natural resources? (By 1974, at present rates of consumption, 26 of our most important products will have to come in significant portions from foreign sources.) What is happening to the consumer's sense of financial responsibility? (Many Americans are dangerously over-committed.) What about America's survival in the export market? (Continual innovation based on style and gadgetry cannot compete in the long run with the better-made, longer-lasting goods being produced abroad.) Above all, what is happening to the American sense of values? (There is reason to believe that our goals are becoming increasingly selfish and materialistic.)

In conclusion, Mr. Packard outlines briefly the paths that can be taken to lead us out of our present dilemma.

Mr. Packard grossly oversimplifies and overstates his case. Nevertheless, his book carries an important message for those Americans content with material abundance as an end in itself.

* * *

The Research Revolution. Leonard Silk. 244 pp. New York: McGraw Hill. \$4.95.

- This is an important book on an important subject. Mr. Silk, who is Economics Editor of *Business Week*, believes that "American industry's new principle of planned and programed innovation" is today one of the most important factors making for growth.

Investment in innovation is nothing new: *regular* and *planned* investment in innovation is. In part, this "research revolution" is the result, directly or indirectly, of the government's defense efforts. To a lesser extent, new management techniques have made it easier to calculate the returns on research investment—although much remains to be done in this area.

Mr. Silk believes that total research and development expenditures will almost double during the next decade and the reasons he gives are convincing.

How innovational such investment will be is another matter. Marketability is not a measure of genuine innovation and patents can be used to obstruct as well as speed innovations. Silk does not ignore these problems, but on the whole he is optimistic, putting his faith in a more responsible educational system and a more generous recognition of the role of "intellectual capital" in spurring economic growth.



Economic Affairs / *A Monthly Analysis*

A special supplement to CHALLENGE

December 1, 1960

A LITTLE RAIN MUST FALL—into the economy. We have our upswings and our downswings, and right now it looks as if we've entered one of our periodic downswings. If current trends continue, this will be our fourth postwar recession. Right now there's nothing to indicate that it will be more severe than the previous three.

Here are some of the key items in the business picture: inventories in September fell by \$100 million, continuing the previous month's decline. Consumer spending is falling. Although disposable personal income rose by \$3.4 billion during the second quarter, consumer demand for durables, nondurables and housing declined by \$2.8 billion. Corporate profits are down, as might be expected. Net income of 764 leading corporations diminished by 11% during the third quarter. Unemployment is rising, pointing to further difficulties ahead.

The government's fiscal and monetary powers have already swung into action. Defense contracts are being let faster, so that new orders for manufacturers are up instead of down. The Federal Reserve has cut reserve requirements for commercial banks, and has permitted them to count vault cash as reserves.

The Federal Reserve's open market operations are also adding to bank reserves. By buying government bonds, the Fed increases the cash deposits in the banking system. This makes it easier for banks to lend for business and consumer purposes. The Fed hopes that competition will force interest rates down, thus encouraging people to borrow—and respond—these funds.

But lower interest rates put pressure on the gold outflow! We're part of an international economy, and we've been seeking the cooperation of the central banks in other countries of the free world. Our government has been in close consultation with the Bank of England.

As a result, the Bank of England has cut its bank rate (their equivalent of our discount rate) and probably agreed to help maintain order in the erratic London gold market.

The new Administration's policy in regard to the business cycle won't differ much from the previous one's. The Federal Reserve is not directly affected by the election of a new President; members of the Board of Governors serve staggered terms of 14 years apiece. As for fiscal policy, both parties agree that some action is necessary during recessions.

Some reliance will be placed on automatic stabilizers. For example, as unemployment rises, unemployment insurance payments step up to help maintain personal income. As taxable incomes fall, tax rates decline faster (because they're progressive), leave income in the hands of consumers.

This, plus some fiscal and monetary action, will help us through the adjustment and into the next upward phase. However, if business activity is still falling by next summer, a heavier dose of government action is likely.

SPECIAL CORRESPONDENCE—It looks as though by the time the young man from Massachusetts is sworn in as President of the United States, the country will be feeling the full effects of a persistent business downturn. The October unemployment figures run counter to seasonal expectations. By January, 1961, the economy could be in another 1957-58 type of recession.

The President-elect wants a 5% annual growth rate, which would not be easy even for an economy in good health. With the GNP already running at a rate \$6 billion below the anticipated \$510 billion for 1960, there would be a good case to increase the flow of government money into the economy.

To do this, the new President would have to recommend increased taxes—improbable during a period of economic slowdown. Or he would have to run substantial budgetary deficits—a sure spur to inflation. Neither outcome would be desirable.

The pessimistic view that economic recovery will be slow is supported by the expected 5% downturn in capital expenditures during 1961.

This means that business investment in new plant and equipment will be about \$35 billion, as projected at present for 1961—not much above the figures for 1959 and 1960, and still less than the \$37 billion for 1957.

Congress continues to keep a wary eye on the economic consequences of disarmament. A subcommittee of the Senate Foreign Relations Committee, headed by Hubert Humphrey, has already sent out questionnaires to more than 400 defense contractors. The object is to find out how the loss of defense business would hurt the companies involved and what steps are being planned to replace government contracts. Survey results are expected to be ready by the time the new Congress convenes.

Judging from the foreign reaction to the Kennedy victory, our European allies seem to be inviting a major shift in the tactics of American foreign policy. Another attempt to climb the Summit early next spring seems to be in the cards.

The recession in American steel production appears to be spreading to Europe. In anticipation of a decline in orders, British steel producers, despite their increasing costs, have decided to hold their present prices.

Look for the Soviet Foreign Trade Ministry to increase its purchases of consumer goods and transportation equipment from the West. The State Planning Commission has raised the quota for these goods. It has the gold to pay for imports.

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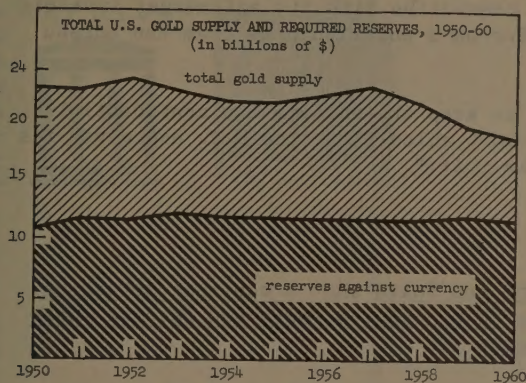
THE DOMESTIC ECONOMY—The unwillingness of speculators to accept dollars, at the official exchange price of \$35 to the gold ounce, has forcefully brought home international wariness over the future of the dollar. Although reputable economists accept the Administration's pledge not to devalue the dollar, speculators are still bidding up the price of gold. What is behind these speculative flurries?

As the chart on the opposite page indicates, our gold stock has steadily declined from its 1952 peak of \$23.3 billion worth. It currently stands around \$18.5 billion, and there are no signs that this drain will be checked in the near future. According to the Gold Reserve Act of 1934 (as amended in 1945) the U.S. must maintain at least 25% backing for outstanding Federal Reserve credit—that is, Federal Reserve notes and deposits.

Since the amount of credit currently stands at a little less than \$47 billion, this means that about \$11.6 billion of our gold hoard is "frozen." We, there-

fore, have about \$6.9 billion worth of gold with which to meet foreign claims. Will this be enough?

Theoretically, it may not be enough. For, while under the Gold Reserve Act of 1934, domestic holdings of dollars cannot be redeemed in gold, foreign dollar holdings are readily convertible. And short-term foreign dollar balances have been going up fast, as the chronic dollar shortage of the early Fifties has eased.



Foreign short-term balances currently stand at over \$20 billion, compared to \$13.6 billion at the end of 1955. About \$3.3 billion worth of these claims are held by the United Nations, the World Bank, and the International Monetary Fund and do not present a problem; the remaining \$17.4 billion, however, is in the hands of central banks, and private firms and individuals.

This means, in effect, that the U.S. has only about \$6.9 billion in "free" gold to meet possible foreign short-term

dollar claims in excess of \$17 billion. While foreigners need some dollar balances to meet their current trade needs, there is no question but that they could use their dollars to buy up our "free" gold stock without impairing their trading operations.

The question is: Will they? As long as there is international confidence in the basic soundness (and easy convertibility) of the U.S. dollar, the size of foreign dollar claims is nothing to worry about. There is every evidence that central banks and private firms continue to have this confidence and a massive run on gold is extremely unlikely.

Moreover, the U.S. has many defenses against such a run should it occur. Congress could, for example, suspend the 25% reserve requirement. Or the Treasury could cease redeeming dollar claims in gold.

Such measures would, however, considerably weaken our international credit position, and they would encourage domestic inflation. The Treasury could also check speculation, at least temporarily, by "dumping" gold abroad and thus bring down the price of gold to the U.S. level of \$35 an ounce.

But these are short-term, emergency measures and no expert believes that we are in an emergency situation as yet. Recent speculation in gold reflects a chronically unfavorable U.S. balance of payments during the last 11 years. During the early Fifties this imbalance was the result of our overseas military commitments and our economic assistance programs.

Since 1955 these commitments have continued to constitute a heavy drain on our capital resources. At the same time, European economic recovery has made it relatively more difficult to earn export income.

Higher interest rates than at home and good growth prospects have also encouraged American capital to move overseas.

These are the problems which we shall have to resolve if we want to stem the flow of gold abroad.

FTC vs. Census Bureau

ECONOMIC NEWS NOTES—By refusing to review a lower court decision, the U.S. Supreme Court has, in effect, upheld the confidential nature of corporation reports submitted to the Census Bureau.

The case grew out of a request by the Federal Trade Commission for access to these reports, a request denied by the Census Bureau. The FTC, which had strong support from the Justice Department's antitrust division, wanted to use the information in connection with its antimerger investigations. Support for the Census Bureau's position came from the Bureau of the Budget.

Since the Census Bureau promised to keep the information confidential when it was obtained, the lower court ruled that "the U.S. has given its word and should be permitted to keep it."

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NLRB ruling

The National Labor Relations Board has ruled that a contract between a union and an employer stipulating that nonunion employees receive lower wages than union members is illegal.

The contract between American Advertising Distributors of Detroit and Local 5 of the Circular Distributors Union, in addition to allowing a 2½¢ an hour differential between union and nonunion workers, authorized the company to deduct union dues from the wages of nonunion employees.

The NLRB ordered the company to reimburse the nonunion workers for any loss of wages they suffered under the contract and ruled that the company and the union must share the cost of reimbursing these workers for the union assessments deducted from their wages. The NLRB ruling will stand unless the company or the union decides to appeal to the courts.

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refunding the debt

The Treasury Department has labeled the recent effort to refund \$10.8 billion in federal indebtedness as "eminently satisfactory," since only \$541 million worth of securities was turned in for cash.

Despite its success, this was probably the last major debt-refunding operation of the Eisenhower Administration, since no substantial amounts of government securities will mature before the Kennedy Administration takes office on January 20, 1961.

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farm surpluses and foreign policy

The Agriculture Department, after some urging from the State Department, is taking cold war political considerations into account in administering its surplus-liquidation programs.

Under a barter program, federally owned surplus farm commodities are exchanged for foreign goods, usually minerals, which are relatively scarce domestically. These goods are then added to the federal stockpile.

This new program will be particularly beneficial to the newly emerging nations of Africa and Asia who would like to exchange their raw materials for U.S. foodstuffs.